EXHIBIT 8

AUDITED CONSOLIDATED ANNUAL FINANCIAL STATEMENTS OF THE APPLICANT (1998-2000)

See the Applicant's 2002 and 2001 Annual Reports, attached as Exhibit 11, for the audited financial statements for those years.

Responsibility for Financial Reporting

The accompanying consolidated financial statements of Manulife Financial Corporation are the responsibility of management and have been approved by the Board of Directors. It is also the responsibility of management to ensure that all information in the annual report to shareholders is consistent with these statements.

The consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada and the requirements of the Superintendent of Financial Institutions (Canada). Appropriate accounting policies and estimates are also used in the determination of information using generally accepted accounting principles in the United States. When alternative accounting methods exist, or when estimates and judgement are required, management has selected those amounts which present the Company's financial position and results of operations in a manner most appropriate to the circumstances.

Appropriate systems of internal control, policies and procedures have been maintained, consistent with reasonable cost, to ensure that financial information is both relevant and reliable. The systems of internal control are assessed on an ongoing basis by the Company's internal audit department.

The actuary appointed by the Board of Directors (the "Appointed Actuary") is responsible for ensuring that assumptions and methods used in the determination of policy liabilities are appropriate to the circumstances and that such reserves will be adequate to meet the Company's future obligations under insurance and annuity contracts.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. These responsibilities are carried out primarily through an Audit Committee of unrelated directors appointed by the Board of Directors.

The Audit Committee meets periodically with management, the internal auditors, the external auditors and the Appointed Actuary to discuss internal control over the financial reporting process, auditing matters and financial reporting issues. The Audit Committee reviews the consolidated financial statements and recommends them to the Board of Directors for approval. The Audit Committee also recommends to the Board of Directors and Shareholders the appointment of external auditors and approval of their fees.

The consolidated financial statements have been audited by the Company's external auditors, Ernst & Young LLP, in accordance with auditing standards generally accepted in Canada. Ernst & Young LLP has full and free access to the Audit Committee.

Signed,

Dominic D'Alessandro
President and Chief Executive Officer

Signed,

Peter Rubenovitch
Executive Vice President and Chief Financial Officer

Toronto, Canada
February 8, 2001

Appointed Actuary's Report to the Shareholders and Directors

I have valued the policy liabilities of Manulife Financial Corporation for its Consolidated Balance Sheets as at December 31, 2000 and 1999 and their change in the Consolidated Statements of Operations for the years then ended in accordance with actuarial practice generally accepted in Canada, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations and the consolidated financial statements fairly present the results of the valuation.

Signed,

Geoff I. Guy, F.C.I.A.
Executive Vice President and Appointed Actuary

Toronto, Canada
February 8, 2001

Auditors' Report to the Shareholders and Directors

We have audited the Consolidated Balance Sheets of Manulife Financial Corporation and the Consolidated Statements of Net Assets of its Segregated Funds as at December 31, 2000 and 1999 and the Consolidated Statements of Operations, Equity, Cash Flows and Changes in Net Assets of its Segregated Funds for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company and its Segregated Funds as at December 31, 2000 and 1999 and the results of the Company's operations and cash flows and the changes in the net assets of its Segregated Funds for the years then ended in accordance with accounting principles generally accepted in Canada including the accounting requirements of the Superintendent of Financial Institutions (Canada).

Signed,

Ernst & Young LLP
Chartered Accountants

Toronto, Canada
February 8, 2001

Consolidated Balance Sheets

(Canadian $ in millions)	As at December 31	2000	1999
ASSETS	**Invested assets** (note 3)		
	Bonds	$ 33,270	$ 30,853
	Mortgages	7,174	6,867
	Stocks	4,621	4,832
	Real estate	3,262	3,179
	Policy loans	3,616	3,207
	Cash and short-term investments	3,783	3,047
	Other investments	884	1,180
	Total invested assets	$ 56,610	$ 53,165
	Other assets		
	Accrued investment income	$ 834	$ 727
	Outstanding premiums	487	357
	Future income taxes (note 5)	515	529
	Miscellaneous	1,621	1,930
	Total other assets	$ 3,457	$ 3,543
	Total assets	$ 60,067	$ 56,708
	Segregated fund net assets	$ 54,908	$ 49,055
LIABILITIES AND EQUITY	Actuarial liabilities (note 4)	$ 41,384	$ 39,748
	Benefits payable and provision for unreported claims	1,800	1,522
	Policyholder amounts on deposit	1,371	1,166
	Deferred realized net gains (note 3)	3,434	2,266
	Banking deposits	592	333
	Other liabilities	2,632	3,152
		$ 51,213	$ 48,187
	Subordinated debt (note 6)	588	582
	Non-controlling interest in subsidiaries	299	750
	Trust preferred securities issued by subsidiaries (note 7)	756	735
	Equity (note 8)		
	Participating policyholders' equity	54	61
	Shareholders' equity		
	Common shares (note 9)	612	628
	Shareholders' retained earnings	6,545	5,765
	Total equity	$ 7,211	$ 6,454
	Commitments and contingencies (note 14)		
	Total liabilities and equity	$ 60,067	$ 56,708
	Segregated fund net liabilities	$ 54,908	$ 49,055

Signed,

Dominic D'Alessandro
President and
Chief Executive Officer

Signed,

Arthur R. Sawchuk
Chairman of the
Board of Directors

Consolidated Statements of Operations

(Canadian $ in millions)

For the years ended December 31	2000	1999
Revenue		
Premium income	$ 8,515	$ 8,672
Investment income (note 3(b))	4,350	4,369
Other revenue	1,287	1,015
Total revenue	$ 14,152	$ 14,056
Policy benefits and expenses		
To policyholders and beneficiaries		
Death and disability benefits	$ 2,480	$ 2,136
Maturity and surrender benefits	2,500	2,064
Annuity payments	1,235	1,267
Policyholder dividends and experience rating refunds	859	738
Net transfers to segregated funds	1,439	1,141
Increase in actuarial liabilities (note 4)	822	2,628
General expenses	2,191	1,817
Commissions	1,086	886
Interest expense	191	179
Premium taxes	96	84
Non-controlling interest in subsidiaries	(151)	(114)
Trust preferred securities issued by subsidiaries	63	62
Total policy benefits and expenses	$ 12,811	$ 12,888
Income before income taxes	$ 1,341	$ 1,168
Income taxes (note 5)	(273)	(302)
Net income	$ 1,068	$ 866
Net loss attributed to:		
Participating policyholders (after demutualization)	$ (7)	$ (8)
Net income attributed to:		
Shareholders (after demutualization)	$ 1,075	$ 267
Mutual operations (prior to demutualization)	–	607
Adjusted shareholders' net income	$ 1,075	$ 874
Net income	$ 1,068	$ 866
Earnings per share (note 11)		

Consolidated Statements of Equity

(Canadian $ in millions) For the years ended December 31	Participating Policyholders	Shareholders	2000	1999
Operating retained earnings				
Balance, January 1	$ 61	$ 5,722	$ 5,783	$ 5,762
Conversion costs (note 8)	–	–	–	(31)
Net income as a mutual operation	–	–	–	607
Balance, September 23, 1999 as restated on demutualization	$ 61	$ 5,722	$ 5,783	$ 6,338
Cash distributions by Manufacturers Life to certain participating policyholders	–	–	–	(694)
Net income (loss) as a stock company	(7)	1,075	1,068	259
Shareholder dividends	–	(193)	(193)	–
Purchase and cancellation of common shares (note 9)	–	(190)	(190)	(120)
Balance, December 31	$ 54	$ 6,414	$ 6,468	$ 5,783
Currency translation account				
Balance, January 1	$ –	$ 43	$ 43	$ 243
Change during the year as a stock company	–	88	88	(84)
Change during the year as a mutual company	–	–	–	(116)
Balance, December 31	$ –	$ 131	$ 131	$ 43
Retained earnings	$ 54	$ 6,545	$ 6,599	$ 5,826
Common shares				
Balance, January 1	$ –	$ 628	$ 628	$ –
Issue of common shares (note 9)	–	–	–	694
Initial public offering costs (note 9)	–	–	–	(58)
Purchase and cancellation of common shares (note 9)	–	(16)	(16)	(8)
Balance, December 31	$ –	$ 612	$ 612	$ 628
Total equity	$ 54	$ 7,157	$ 7,211	$ 6,454

Consolidated Statements of Cash Flows

(Canadian $ in millions) For the years ended December 31	2000	1999
Operating activities		
Operating cash inflows		
Premiums and annuity considerations	$ 8,385	$ 7,955
Investment income received	3,670	3,523
Other revenue	1,287	1,015
Total operating cash inflows	$ 13,342	$ 12,493
Operating cash outflows		
Benefit payments	$ 5,969	$ 5,334
Insurance expenses and taxes (note 5 and 6)	3,624	2,883
Dividends paid to policyholders	859	738
Net transfers to segregated funds	1,439	1,141
Change in other assets and liabilities	(460)	(502)
Total operating cash outflows	$ 11,431	$ 9,594
Cash provided by operating activities	$ 1,911	$ 2,899
Investing activities		
Purchases and mortgage advances	$ (33,882)	$ (32,354)
Disposals and repayments	33,600	30,433
Cash used in investing activities	$ (282)	$ (1,921)
Financing activities		
Increase (decrease) in repurchase agreements and securities sold but not yet purchased	$ (559)	$ 810
Shareholder dividends	(193)	–
Purchase and cancellation of common shares (note 9)	(206)	(128)
Borrowed (repaid) funds, net	(1)	51
Issue of common shares (note 9)	–	694
Payments to certain policyholders and underwriters upon demutualization (note 8)	–	(735)
Cash provided by (used in) financing activities	$ (959)	$ 692
Cash and short-term investments		
Increase during the year	$ 670	$ 1,670
Balance, January 1	2,810	1,140
Balance, December 31	$ 3,480	$ 2,810

Composition of cash and short-term investments		
Beginning of year		
Gross cash and short-term investments	$ 3,047	$ 1,329
Net payments in transit, included in other liabilities	(237)	(189)
Net cash and short-term investments, January 1	$ 2,810	$ 1,140
End of year		
Gross cash and short-term investments	$ 3,783	$ 3,047
Net payments in transit, included in other liabilities	(303)	(237)
Net cash and short-term investments, December 31	$ 3,480	$ 2,810

Segregated Funds
Consolidated Statements of Net Assets

(Canadian $ in millions) As at December 31	2000	1999
Investments, at market values		
Bonds	$ 2,567	$ 3,188
Stocks	49,880	42,903
Real estate	2	7
Cash and short-term investments	2,428	2,948
Accrued investment income	16	24
Other assets (liabilities), net	15	(15)
Total segregated fund net assets, December 31	$ 54,908	$ 49,055
Composition of segregated fund net assets:		
Held by Policyholders	$ 54,705	$ 48,993
Held by the Company	203	62
Total segregated fund net assets, December 31	$ 54,908	$ 49,055

Segregated Funds
Consolidated Statements of Changes in Net Assets

(Canadian $ in millions) For the years ended December 31	2000	1999
Additions		
Deposits from policyholders	$ 14,777	$ 10,709
Realized and unrealized investment gains (losses)	(5,977)	6,199
Interest and dividends	2,613	1,773
Net transfers from general fund	1,439	1,141
Currency revaluation	1,793	(2,356)
Total additions	$ 14,645	$ 17,466
Deductions		
Payments to policyholders	$ 7,990	$ 5,982
Management and administrative fees	802	629
Total deductions	$ 8,792	$ 6,611
Net addition to segregated funds for the year	$ 5,853	$ 10,855
Segregated fund net assets, January 1	49,055	38,200
Segregated fund net assets, December 31	$ 54,908	$ 49,055

Notes to Consolidated Financial Statements

(Canadian $ in millions unless otherwise stated)

NOTE 1 *Nature of Operations and Significant Accounting Policies*

Manulife Financial Corporation ("Manulife Financial," the "Company") is a publicly traded stock life insurance company and the insurance holding company of The Manufacturers Life Insurance Company ("Manufacturers Life") which was organized as a mutual life insurance company until September 23, 1999, on which date it demutualized (note 8). The Company provides a wide range of financial products and services, including individual life insurance, group life and health insurance, pension products, annuities and mutual funds to individual and group customers in Canada, the United States and Asia. The Company also offers reinsurance services, primarily life and accident and health reinsurance, and provides investment management services with respect to the Company's general fund assets, segregated fund assets and mutual funds and, in Canada, to institutional customers.

Manulife Financial is registered under the Insurance Companies Act (Canada) ("ICA"), which requires that financial statements be prepared in accordance with accounting principles generally accepted in Canada, including the requirements of the Superintendent of Financial Institutions (Canada) ("OSFI"), ("GAAP"). None of the accounting requirements of OSFI is an exception to accounting principles generally accepted in Canada. The preparation of financial statements, in conformity with GAAP, requires that management makes estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimation processes are related to the determination of actuarial liabilities. Although some variability is inherent in these estimates, management believes that the amounts provided are adequate. The significant accounting policies used in the preparation of these consolidated financial statements are summarized below:

a) Basis of consolidation

Manulife Financial consolidates the financial statements of all subsidiary companies and eliminates on consolidation all significant inter-company balances and transactions. The equity method is used to account for investments over which the Company exerts significant influence. Gains and losses on sales of these investments are included in income when realized, while expected losses on other than temporary impairments are recognized immediately.

b) Invested assets

Under GAAP for life insurance companies, the invested assets held by the Company are accounted for through a variety of methods. These methods are summarized as follows:

	Carrying value	Recognition of realized gains and losses on normal business activity	Recognition of impairment
Bonds	At amortized cost less an allowance for specific losses.	Deferred and brought into income over the lesser of 20 years or the remaining term to maturity of the bond sold.	Impairment is recognized on a specific bond when there is no longer reasonable assurance as to the timely collection of the full amount of principal and interest. In such cases, the bond is written down to its net realizable value and the charge is recorded in income in the period the impairment is recognized.
Mortgages and Loans	At amortized cost less repayments and an allowance for specific losses.	Deferred and brought into income over the lesser of 20 years or the remaining term to maturity of the mortgage or loan sold.	Impairment is recognized on a specific mortgage or loan when there is no longer reasonable assurance as to the timely collection of the full amount of principal and interest. Such impaired mortgages and loans are carried at their estimated realizable value, determined for each asset by discounting the expected future cash flows at the original interest rate inherent in the asset. When the amounts and timing of future cash flows cannot be estimated with reasonable reliability, estimated realizable amounts are measured at either the fair value of any security underlying the mortgage or loan, net of expected costs of realization and any amounts legally required to be paid to borrowers, or at observable market prices for the mortgages or loans. Mortgages and loans are classified as impaired whenever payments are three months or more in arrears or if there is a provision against the mortgage or loan. At the time of foreclosure, mortgages are written down to net realizable value. Declines in the net realizable value of foreclosed properties are charged to income immediately.
Stocks	On a moving average market basis whereby carrying values are adjusted towards market value at 15% per annum.	Deferred and brought into income at the rate of 15% of unamortized deferred realized gains and losses each year.	Specific stocks are written down to market value if an impairment in the value of the entire stock portfolio (determined net of deferred realized gains) is considered to be other than temporary.
Real Estate	On a moving average market basis whereby carrying values are adjusted towards market value at 10% per annum.	Deferred and brought into income at the rate of 10% of unamortized deferred realized gains and losses each year.	Specific properties are written down to market value if an impairment in the value of the entire real estate portfolio (determined net of deferred realized gains) is considered to be other than temporary.
Policy Loans	At their unpaid balance.	Not applicable. Fully secured by the cash surrender value of the policies on which the loans are made.	Fully secured by the cash surrender value of the policies on which the loans are made.

On disposition of an impaired asset, the allowance is written off against the related assets. Once established, an allowance against temporary impairment of bonds or mortgages is reversed only if the conditions that caused the impairment no longer exist.

In addition to specific allowances, the Company provides for potential future impairments by reducing investment yields assumed in the calculation of actuarial liabilities.

c) Actuarial liabilities

Actuarial liabilities represent the amount which, together with estimated future premiums and net investment income, will be sufficient to pay estimated future policy benefits, policyholder dividends, taxes (other than income taxes) and expenses on policies inforce. The Company's Appointed Actuary is responsible for determining the amount of actuarial liabilities that must be set aside each year to ensure that sufficient funds will be available in the future to meet these obligations. The valuation methods employed by the Appointed Actuary are based on standards established by the Canadian Institute of Actuaries. In accordance with actuarial practices generally accepted in Canada, liabilities have been determined using the policy premium method and the cash flow valuation method.

d) Other investments

Included in other investments are investments in oil and gas properties, equipment leases, limited partnerships, commercial loans, investments in segregated and mutual funds and derivative assets.

e) Miscellaneous assets

Included in miscellaneous assets are amounts due from reinsurers and capital assets. The latter are carried at cost less accumulated amortization computed on a straight-line basis over their estimated useful lives, which vary from two to ten years.

f) Segregated funds

The Company manages a number of segregated funds on behalf of policyholders. The investment returns on these funds accrue directly to the policyholders, with the Company assuming no risk. Consequently, these funds are segregated and presented separately from the general fund of the Company. Income earned from fund management fees is included in other revenue in the general fund. Investments held in segregated funds are carried at market value.

The Company also provides minimum guarantees on individual variable life and annuity contracts. These include minimum death benefit guarantees, minimum maturity value guarantees and minimum income benefit guarantees. The liability associated with these minimum guarantees is recorded in actuarial liabilities in the general fund of the Company.

g) Translation of foreign currencies

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates in effect at the Consolidated Balance Sheet dates. Revenue and expenses are translated at the average exchange rates prevailing during the year. Unrealized foreign currency translation gains and losses on investments in self-sustaining operations are recorded in equity. Translation gains and losses on disposition of investments in self-sustaining operations are included in income.

h) Income taxes

The Company provides for income taxes using the liability method of tax allocation. Under this method, the provision for income taxes is calculated based on income tax laws and income tax rates in effect as at the Consolidated Balance Sheet dates. The income tax provision is comprised of two components: current income taxes and future income taxes.

Current income taxes are amounts expected to be payable or recoverable as a result of operations in the current year. Future income taxes arise from changes during the year in cumulative temporary differences between the accounting carrying value of assets and liabilities and their respective tax bases. The future income tax asset is recognized to the extent that future realization of the tax benefit is more likely than not, with a valuation allowance for the excess.

i) Pensions and other post-employment benefits

The Company maintains a number of pension plans for its eligible employees and agents. Assets for each plan are held by independent trustees and are carried at market values.

The defined contribution plans were established in 1998 and provide pension benefits based on the accumulated contributions and fund earnings. The cost of defined contribution benefits is the required contribution provided by the Company in exchange for the services of employees rendered during the period.

The defined benefit plans provide pension benefits based on length of service and final average earnings. The cost of defined benefit pension benefits is recognized using the projected benefit method pro-rated on services. Experience gains and losses are amortized to income over the estimated average remaining service lives of plan members.

The Company also provides supplementary pension, health, dental and life insurance benefits to qualifying employees upon retirement. The estimated present value of these benefits is charged to earnings over the employees' years of service to their date of full entitlement.

j) Derivatives

The Company uses derivatives to manage exposures to foreign currency, interest rate and other market risks arising from its on-balance sheet financial instruments. These derivatives are designated and effective as hedges, as there is a high correlation between changes in market value of the derivative and the underlying hedged item at inception and over the life of the hedge. Realized and unrealized gains and losses on these derivatives are accounted for on the same bases as the underlying assets and liabilities. Realized and unrealized gains and losses on derivative transactions established as hedges but no longer considered hedges are included in income from the date at which they are no longer considered to be hedges. Derivative income and expenses related to invested assets and financial liabilities are included in investment income and interest expense, respectively, in the Consolidated Statements of Operations. Cash flows relating to derivatives associated with invested assets and financial liabilities are included in the Consolidated Statements of Cash Flows on a basis consistent with the cash flows from the underlying invested assets and financial liabilities. Derivative assets and liabilities are included in other investments and other liabilities, respectively, and deferred realized net gains are presented as such in the Consolidated Balance Sheets.

k) Goodwill

Goodwill represents the excess of the cost of businesses acquired over fair values assigned to the related identifiable net assets and is amortized on a straight-line basis over the expected benefit periods of up to 20 years. Unamortized goodwill is reviewed periodically for impairment by considering factors such as returns of the related business, taking into account the risk associated with the investment. When goodwill is determined to be impaired, a charge is taken to income immediately.

l) Premium income and related expenses

Gross premiums for all types of insurance contracts, and contracts with limited mortality or morbidity risk, are generally recognized as revenue when due.

When premiums are recognized, the related actuarial liabilities are computed, resulting in benefits and expenses being matched with such revenue.

m) Stock-based compensation

The Company provides compensation to certain employees in the form of stock options and deferred share units. The intrinsic value method of accounting is used and as such, no expense is recognized for stock options as the exercise price thereon is set at the closing market price of Manulife Financial Corporation common shares on The Toronto Stock Exchange on the business day immediately preceding the award grant date. When options are exercised, the proceeds received by the Company are credited to share capital.

Note 2 *Changes in Accounting Policies and Newly Issued Accounting Policies*

a) Income taxes

In December 1997, The Canadian Institute of Chartered Accountants ("CICA") issued Handbook Section 3465, "Income Taxes," effective for fiscal years commencing January 1, 2000. This standard requires the use of the liability method of accounting for income taxes and changes the focus from income statement timing differences to balance sheet temporary differences. The Company adopted the recommendations of this standard effective for its fiscal year commencing January 1, 1999. The impact of this change was not material to these consolidated financial statements.

b) Pensions and other post-employment benefits

In March 1999, The CICA issued Handbook Section 3461, "Employee Future Benefits," effective for fiscal years commencing January 1, 2000. This standard requires employee future benefits to be accounted for on an accrual basis, pension obligations to be discounted using a market rate of interest and pension assets to be included at market values. The Company adopted the recommendations of this standard effective for its fiscal year commencing January 1, 1999. The impact of this change was not material to these consolidated financial statements.

c) Earnings per share

In December 2000, The CICA issued Handbook Section 3500, "Earnings Per Share," effective for fiscal years commencing January 1, 2001, which requires the use of the treasury stock method of computing diluted earnings per share. The Company will adopt the recommendations of this standard on January 1, 2001. The impact of this change is not expected to materially affect the calculation of the Company's earnings per share.

Note 3 *Invested Assets and Income*

a) Invested assets

As at December 31 2000	Carrying value	Fair value	Unrealized gains	Unrealized losses	Deferred realized net gains (losses)	Total realized and unrealized gains
Bonds (fixed maturity)						
Canadian government	$ 7,494	$ 8,321	$ 845	$ (18)	$ 181	$ 1,008
Foreign governments	5,381	5,689	315	(7)	129	437
Corporate	18,662	18,789	589	(462)	450	577
Mortgage-backed securities	1,733	1,762	39	(10)	41	70
Mortgages	7,174	7,437	291	(28)	42	305
Stocks	4,621	4,997	659	(283)	2,544	2,920
Real estate	3,262	3,617	377	(22)	50	405
Policy loans	3,616	3,616	–	–	–	–
Cash and short-term investments	3,783	3,783	–	–	–	–
Other investments	884	980	111	(15)	(3)	93
Total invested assets	$ 56,610	$ 58,991	$ 3,226	$ (845)	$ 3,434	$ 5,815
1999						
Bonds (fixed maturity)						
Canadian government	$ 7,182	$ 7,499	$ 470	$ (153)	$ 239	$ 556
Foreign governments	5,076	4,983	59	(152)	169	76
Corporate	16,896	16,676	401	(621)	562	342
Mortgage-backed securities	1,699	1,652	10	(57)	56	9
Mortgages	6,867	6,937	200	(130)	50	120
Stocks	4,832	6,642	2,022	(212)	1,126	2,936
Real estate	3,179	3,468	342	(53)	66	355
Policy loans	3,207	3,207	–	–	–	–
Cash and short-term investments	3,047	3,047	–	–	–	–
Other investments	1,180	1,196	37	(21)	(2)	14
Total invested assets	$ 53,165	$ 55,307	$ 3,541	$ (1,399)	$ 2,266	$ 4,408

Fair values are determined with reference to quoted market prices where available. Fair values of mortgages reflect changes in interest rates which have occurred since the mortgages were originated and changes in the credit-worthiness of individual borrowers. For fixed-rate mortgages, fair value is determined by discounting the expected future cash flows at market interest rates for mortgages with similar credit risks. Fair values of real estate are determined by a combination of internal and external appraisals utilizing expected net cash flows discounted at market interest rates. Included in other investments are oil and gas properties; the fair value of which is determined by external appraisals. Fair values of policy loans, cash and short-term investments and the remaining other investments approximate their carrying values due to their short-term nature.

Foreclosed properties of $54 are included in real estate as at December 31, 2000 (1999 – $92).

The following table presents the carrying value and fair value of bonds, based on period to maturity:

Bonds

As at December 31	2000 Carrying value	2000 Fair value	1999 Carrying value	1999 Fair value
Maturity				
Due in one year or less	$ 1,438	$ 1,457	$ 2,100	$ 2,110
Due after one year through five years	7,621	7,780	8,352	8,257
Due after five years through ten years	8,221	8,365	5,617	5,492
Due after ten years	14,257	15,197	13,085	13,299
Mortgage-backed securities	1,733	1,762	1,699	1,652
Total	$ 33,270	$ 34,561	$ 30,853	$ 30,810

The following table presents the carrying value and fair value of mortgages, by type of property:

Mortgages

As at December 31	2000 Carrying value	2000 Fair value	1999 Carrying value	1999 Fair value
Residential	$ 1,536	$ 1,577	$ 1,369	$ 1,384
Office	1,708	1,781	1,594	1,610
Retail	1,958	2,036	2,036	2,080
Industrial	1,713	1,768	1,618	1,606
Other	259	272	250	257
Total	$ 7,174	$ 7,434	$ 6,867	$ 6,937

The carrying value of government-insured loans was 4.1% of the total carrying value of the mortgage portfolio as at December 31, 2000 (1999 – 4.7%) and the value of privately-insured mortgages was 0.03% of the total mortgage portfolio as at December 31, 2000 (1999 – 0.03%).

b) Investment income

For the years ended December 31	Gross investment income	Provision for impairment, net (note 3(e))	Amortization of realized and unrealized gains (losses)	Total	Yield (%)
2000					
Bonds	$ 2,305	$ (121)	$ 110	$ 2,294	7.46
Mortgages	558	17	15	590	8.97
Stocks	62	–	510	572	22.41
Real estate	260	34	44	338	11.34
Policy loans	308	–	–	308	8.99
Cash and short-term investments	128	–	–	128	3.63
Other investments	186	(30)	(52)	104	N/A
Currency	–	–	16	16	N/A
Total	$ 3,807	$ (100)	$ 643	$ 4,350	8.58
1999					
Bonds	$ 2,193	$ (101)	$ 191	$ 2,283	7.97
Mortgages	621	24	11	656	9.43
Stocks	115	–	524	639	23.03
Real estate	230	21	38	289	10.05
Policy loans	274	–	–	274	8.69
Cash and short-term investments	84	–	–	84	3.34
Other investments	123	(2)	7	128	N/A
Currency	–	–	16	16	N/A
Total	$ 3,640	$ (58)	$ 787	$ 4,369	9.01

Yields are based on total investment income divided by the average carrying value of assets plus accrued income less net deferred gains.

c) Securities lending

The Company engages in securities lending to generate additional income. Certain securities from its portfolio are loaned to other institutions for periods of time. Collateral, which exceeds the market value of the loaned securities, is lodged by the borrower with the Company and retained by the Company until the underlying security has been returned to the Company. The market value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market value fluctuates. As at December 31, 2000, the Company had loaned securities (which are included in invested assets) with a carrying value and market value of approximately $1,635 and $1,760, respectively (1999 – $1,423 and $1,410, respectively).

d) Mortgage securitization

The Company has sold for cash, with limited recourse, commercial mortgages. The maximum recourse on these mortgages is less than 10% of the proceeds. When the mortgages are sold, they are removed from the Company's balance sheet and the amortized gains are recognized in net investment income. As at December 31, 2000, outstanding balances of sold mortgages with limited recourse was $505 (1999 – $591).

e) Credit risk

Credit risk is the risk that a party to a financial instrument, such as a mortgage borrower, will fail to fully honour its financial obligations to the Company. Credit risks are primarily associated with investment, derivative and reinsurance counterparties.

The Company has provided for credit risks by establishing specific allowances against the carrying value of the impaired assets in the Consolidated Balance Sheets. In addition to specific allowances, the Company provides for potential future impairments by reducing investment yields assumed in the calculation of actuarial liabilities (note 4(c)). The carrying value of impaired assets was as follows:

As at December 31 2000	Gross amount	Allowance	Carrying value
Mortgages	$ 90	$ 33	$ 57
Other impaired assets	294	129	165
Total	$ 384	$ 162	$ 222
1999			
Mortgages	$ 133	$ 49	$ 84
Other impaired assets	195	83	112
Total	$ 328	$ 132	$ 196

The changes during the year in respect of the specific allowance for impairment were as follows:

Specific allowance for impairment	2000	1999
Balance, January 1	$ 132	$ 177
Provisions during the year	100	58
Write-offs, net of recoveries	(70)	(103)
Balance, December 31	$ 162	$ 132

In addition to specific allowances for existing impairments, actuarial liabilities include an allowance for future impairments. As at December 31, 2000, the provision for future credit losses included in actuarial liabilities was $1,221 (1999 – $1,207).

Concentrations of credit risk

The Company's exposure to credit risk is managed through risk management policies and procedures with emphasis on the quality of the investment portfolio together with maintenance of issuer, industry and geographic diversification standards.

As at December 31, 2000, 96% of bonds (1999 – 95%) were rated at investment grade "BBB" or higher, and 85% (1999 – 86%) were rated "A" or higher. Government bonds represented 39% (1999 – 40%) of the bond portfolio. The Company's highest exposure to a single non-government issuer was $451 (1999 – $678). Mortgages and real estate are diversified geographically and by property type. Ontario, Canada was the largest concentration of mortgages and real estate, with $3,424 (1999 – $3,320) of the total portfolio. Income-producing commercial office properties were the largest concentration of real estate with $2,267 (1999 – $2,108) of the real estate portfolio. As at December 31, 2000, 95% (1999 – 97%) of the stock portfolio was comprised of publicly listed corporations. The largest single issuer represented 6% (1999 – 3%) of the portfolio.

The Company's exposure to loss on derivatives is limited to the extent that default by counterparties to these contracts results in the loss of any gains that may have accrued. All contracts are held with counterparties rated "A" or higher, with 85% as at December 31, 2000 (1999 – 86%) of the exposed amount being with counterparties rated "AA" or higher. The largest single counterparty exposure as at December 31, 2000 was $9 (1999 – $39).

NOTE 4 *Actuarial Liabilities*

a) Composition

Actuarial liabilities represent the amount which, together with estimated future premiums and net investment income, will be sufficient to pay estimated future benefits, policyholder dividends, taxes (other than income taxes) and expenses on policies inforce. The composition of actuarial liabilities by line of business and geographic territory was as follows:

	Individual life insurance				
As at December 31 2000	Participating	Non-participating	Annuities and pensions	Other insurance liabilities	Total
United States	$ 10,896	$ 2,753	$ 5,996	$ 1,056	$ 20,701
Canada	2,476	1,615	10,554	1,642	16,287
International	2,434	988	934	40	4,396
Total	$ 15,806	$ 5,356	$ 17,484	$ 2,738	$ 41,384
1999					
United States	$ 9,836	$ 2,720	$ 6,280	$ 938	$ 19,774
Canada	2,322	1,437	11,245	1,590	16,594
International	2,016	635	707	22	3,380
Total	$ 14,174	$ 4,792	$ 18,232	$ 2,550	$ 39,748

Upon demutualization, Manufacturers Life was required, under the ICA, to maintain two separate accounts within its general fund: one for its participating policies and one for its non-participating policies. For participating policies inforce as at September 23, 1999, separate sub-accounts were established within the participating account. These sub-accounts permit this participating business to be operated as separate "closed blocks" of business.

As at December 31, 2000, 77% (1999 – 76%) of actuarial liabilities related to the participating policyholders' account are included in the closed blocks.

b) Assets backing liabilities and equity

The Company has established a target invested asset portfolio mix which takes into account the risk attributes of the liabilities supported by the assets, expectations of market performance, and a generally conservative investment philosophy. Assets are segmented and matched to liabilities with similar underlying characteristics by product line and major currency. Liabilities with rate and term guarantees, such as annuities and pensions, are predominantly backed by fixed-rate instruments such as bonds and commercial and mortgage loans. Insurance products, such as participating whole life insurance, are backed by a broader range of asset classes. The Company's equity is primarily invested in North American stocks, bonds and real estate and international securities.

Changes in the fair value of assets backing actuarial liabilities would have a limited impact on the Company's equity, as it would be offset by a corresponding change in the fair value of the liabilities. The fair value of assets backing actuarial liabilities as at December 31, 2000 was estimated at $42,754 (1999 – $40,631).

A change in the fair value of assets supporting capital and other liabilities results in a corresponding change in equity when recognized, offset by changes in related liabilities when recognized. The fair value of assets backing capital and other liabilities as at December 31, 2000 was estimated at $19,694 (1999 – $18,218).

The carrying value of total assets supporting actuarial liabilities, other liabilities and capital was as follows:

As at December 31	Individual life insurance					
2000	Participating	Non-participating	Annuities and pensions	Other	Capital	Total
Assets						
Bonds	$ 8,108	$ 2,938	$ 11,815	$ 7,919	$ 2,490	$ 33,270
Mortgages	1,094	629	3,668	1,564	219	7,174
Stocks	1,206	236	61	737	2,381	4,621
Real estate	1,291	241	44	486	1,200	3,262
Other	4,107	1,312	1,896	2,160	2,265	11,740
Total	$ 15,806	$ 5,356	$ 17,484	$ 12,866	$ 8,555	$ 60,067
1999						
Assets						
Bonds	$ 6,448	$ 2,462	$ 12,934	$ 6,546	$ 2,463	$ 30,853
Mortgages	941	260	3,845	1,511	310	6,867
Stocks	1,865	182	71	688	2,026	4,832
Real estate	1,088	41	37	349	1,664	3,179
Other	3,832	1,847	1,345	2,645	1,308	10,977
Total	$ 14,174	$ 4,792	$ 18,232	$ 11,739	$ 7,771	$ 56,708

Other includes insurance and non-insurance liabilities and non-controlling interest in subsidiaries. Capital represents total equity, subordinated debt and trust preferred securities issued by subsidiaries.

As at December 31, 2000, 77% (1999 – 76%) of assets related to the participating policyholders' account are included in the closed blocks.

The net deferred realized gains taken into account in the computation of actuarial liabilities as at December 31, 2000 were $2,082 (1999 – $1,695).

c) Significant reserve assumptions

The preparation of financial statements involves the use of estimates and assumptions; however, actual results may differ from those estimates. The most significant estimation processes for insurance companies are related to the determination of actuarial liabilities.

Actuarial liabilities have two major components, a best estimate and a provision for adverse deviation. In conjunction with prudent business practices to manage both business and investment risks, the selection and monitoring of appropriate assumptions are designed to minimize the extent to which the Company is financially exposed to measurement uncertainty.

Best estimate reserve assumptions

In the computation of actuarial liabilities, best estimate reserve assumptions are made. Assumptions are made for the lifetime of the policies and include assumptions with respect to mortality and morbidity, investment returns, rates of policy termination, operating expenses and certain taxes. Actuarial assumptions may be subject to change in the future. Actual experience is monitored regularly against the assumptions to ensure that the assumptions remain appropriate. Assumptions are discussed in more detail in the following table.

Nature of factor and assumption methodology		Risk management and sensitivity to change
Mortality and Morbidity	Mortality relates to the occurrence of death. Mortality assumptions are based on past and emerging Company and industry experience. Assumptions are differentiated by sex, underwriting class and policy type. Morbidity relates to the occurrence of accidents and sickness. Morbidity assumptions are based on Company and industry experience.	The Company establishes appropriate underwriting standards to determine the insurability of applicants. Claim trends are monitored on an ongoing basis. Exposure to large claims is managed by establishing policy retention limits which vary by market and geographic location. Policies in excess of the limits are reinsured with other companies. The maximum exposure on any one life policy as at December 31, 2000 was $23 (1999 – $22). In addition, the Company carries coverage that insures against a catastrophic event that could entail aggregate claims in excess of $30 but less than $150 as at December 31, 2000 and 1999. Mortality is monitored monthly and recent experience has been favourable when compared to the Company's assumptions. Morbidity is monitored monthly and recent experience has been consistent with the Company's assumptions, with the exception of the U.S. accident and health business which has been unfavourable when compared to the Company's assumptions.
Investment Return	The Company matches assets and liabilities by business segment, using investment objectives that are appropriate for each line of business. The projected cash flows from these assets are combined with future reinvestment rates derived from the current economic outlook and the Company's investment policy in order to determine expected rates of return on these assets for all future years. Investment return assumptions include expected future asset defaults. Asset defaults are projected based on both past Company and industry experience and specific reviews of the current investment portfolio.	The Company's policy of closely matching cash flows on the assets with those for the corresponding liabilities reduces the Company's exposure to future changes in interest rates. Derivative instruments are used where necessary when there is a lack of suitable permanent investments to minimize loss exposure to interest rate changes. The valuation interest rate assumes a declining reinvestment rate in order to incorporate reinvestment risk. For the Company's annuity business, an immediate and parallel decrease in interest rates of 1% across all maturities in Canada, the United States and Hong Kong would increase net income and equity by $7 as at December 31, 2000 (1999 – decrease of $4). The exposure to asset default is managed by policies and procedures which limit concentrations by issuer, connections, rating, sector and geographic region. Recent mortgage default experience has continued to be favourable when compared to the Company's assumptions. Recent bond default experience has been consistent with the Company's assumptions, with the exception of certain asset classes in the U.S. which have been unfavourable when compared to the Company's assumptions.
Policy Terminations	Lapse relates to the termination of policies due to non-payment of premiums. Surrenders relate to the voluntary termination of policies by policyholders. Policy termination assumptions are based on the Company's experience adjusted for expected future conditions. Assumptions reflect differences in geographic markets and lapse patterns for different types of contracts.	The Company designs its products in order to minimize financial exposure to lapse and surrender risk. In addition, the Company monitors lapse and surrender experience monthly. Generally, recent lapse rates have been lower than expected when compared to assumptions used in the computation of actuarial liabilities, with higher surrenders experienced on certain pension and deferred annuity business.
Minimum Guarantees on Segregated Funds	The Company holds reserves using the "factor based model" as prescribed by the Canadian Institute of Actuaries. These factors vary and are based on the nature of the segregated fund guarantees. In addition, the Company ensures the adequacy of these reserves through stochastic modeling. Investment performance, mortality and lapse assumptions are the key variables which are modeled.	The Company establishes appropriate underwriting standards to determine suitability of adding a fund to the product. Twice each year, fund performance is monitored and those funds which do not adhere to the given mandate are replaced. In addition, product design and premiums are reviewed in order that the financial risk remains within Board established boundaries. Recent experience of key variables has been consistent with the industry.

In addition to the above, assumptions are made for expenses and taxes (other than income taxes). Policy maintenance expenses are derived from the Company's internal cost studies, projected into the future with an allowance for inflation. Explicit assumptions are made for future premium taxes and other non-income related taxes.

Provision for adverse deviation
The basic assumptions made in establishing actuarial liabilities are best estimates for a range of possible outcomes. To recognize the uncertainty in establishing these best estimate reserve assumptions, to allow for possible deterioration in experience and to provide greater comfort that the reserves are adequate to pay future benefits, the Appointed Actuary is required to include a margin in each assumption.

The impact of these margins is to increase actuarial liabilities and decrease the income that would be recognized at inception of the policy. Minimum conditions are prescribed by the Canadian Institute of Actuaries for determining margins related to interest risk. For other risks which are not specifically addressed by the standard, a range is defined as 5% to 20% of the expected experience assumption. The Company uses assumptions at the conservative end of the range, taking into account the risk profiles of the business.

d) Risk management
In addition to risks related to reserve assumptions, the Company is also exposed to the following risks:

Foreign currency risk
The Company's strategy of matching the currency of its assets with the currency of the liabilities these assets support results in minimal financial exposure related to foreign currency fluctuations on assets backing actuarial liabilities.

The Company also generally matches the currency of its equity with the currency of its liabilities except for approximately $500 as at December 31, 2000 (1999 – $650) which was invested in a diversified basket of international currencies. Aligning the currency mix reduces the sensitivity of the Company's capital ratios to exchange rate fluctuations.

As at December 31, 2000, assets exceeded liabilities denominated in foreign currencies by approximately $3,300 (1999 – $3,900), of which $2,700 as at December 31, 2000 (1999 – $3,100) related to the United States dollar. The impact of a 100 basis point increase in the Canadian dollar relative to the United States dollar would be a $13 decrease in net income for the year ended December 31, 2000 (1999 – $10) and a $49 decrease in equity as at December 31, 2000 (1999 – $56).

Liquidity risk

Liquidity risk is the risk that the Company will not have access to sufficient funds to meet its liabilities as they become due. Certain of the Company's policies have features that allow them to be terminated at short notice, creating a potential liquidity exposure. In the normal course of business, the Company matches the maturity of invested assets to the maturity of actuarial liabilities.

As at December 31, 2000, the Company had immediate strategic liquidity of $29,811 (1999 – $27,855).

Reinsurance risk

In the normal course of business, the Company limits the amount of loss on any one policy by reinsuring certain levels of risk with other insurers. In addition, the Company accepts reinsurance from other reinsurers. Reinsurance ceded does not discharge the Company's liability as the primary insurer. Failure of reinsurers to honour their obligations could result in losses to the Company; consequently, allowances are established for amounts deemed uncollectible. In order to minimize losses from reinsurer insolvency, the Company monitors the concentration of credit risk both geographically and with any one reinsurer. In addition, the Company selects reinsurers with high credit ratings.

As a result of ceded reinsurance, actuarial liabilities have been reduced by $1,677 as at December 31, 2000 (1999 – $1,553).

The effect of reinsurance on premium income was as follows:

For the years ended December 31	2000	1999
Direct premium income	$ 8,120	$ 7,410
Reinsurance assumed	867	1,780
Reinsurance ceded	(472)	(518)
Total premium income	$ 8,515	$ 8,672

e) Change in actuarial liabilities

Change in actuarial liabilities during the year was caused by the following business activities and changes in actuarial estimates:

For the years ended December 31	2000	1999
Balance, January 1	$ 39,748	$ 38,738
Normal change		
New policies	652	1,705
Inforce	77	160
Changes in methods and assumptions	93	(3)
Changes due to assumption reinsurance agreement	–	766
Currency impact	814	(1,618)
Balance, December 31	$ 41,384	$ 39,748

During the year, reserve changes were made to reflect updated experience and claims assumptions in several business lines, and reserves were strengthened to reflect increased provisions related to certain savings products and an updated assessment of credit risks for certain asset classes. Reserves for segregated fund and similar products with maturity and death benefit guarantees were strengthened slightly to reflect an improved risk assessment process involving stochastic modeling.

Provisions for unreported claims are included with policy benefits in the course of settlement on the Consolidated Balance Sheets.

Note 5 *Income Taxes*

The effective income tax rate for the consolidated provision for income taxes varies from the income taxes computed at the Canadian statutory tax rate of 42% as at December 31, 2000 (1999 – 43%) for the following reasons:

Reconciliation of income tax expense

For the years ended December 31	2000	1999
Income tax at Canadian statutory rates	$ 563	$ 502
Increase (decrease) in tax due to:		
Tax-exempt investment income	(74)	(18)
Differences in tax rates on income not subject to tax in Canada	(222)	(161)
Recognition of tax benefit from prior years	(60)	(27)
Changes in future tax asset from statutory rate changes	32	–
Other	34	6
Income taxes	$ 273	$ 302

Components of income tax expense included in the Consolidated Statements of Operations are:

For the years ended December 31	2000	1999
Canadian income tax expense (benefit):		
Current taxes	$ 86	$ 62
Future taxes	21	(32)
	$ 107	$ 30
Foreign income tax expense (benefit):		
Current taxes	$ 156	$ (34)
Future taxes	10	306
	$ 166	$ 272
Income tax expense	$ 273	$ 302

The amount of income taxes paid in cash during the year ended December 31, 2000 was $103 (1999 – $61).

Undistributed earnings of non-Canadian subsidiaries may be taxed upon repatriation to Canada. The Company has recognized a future tax liability on these undistributed earnings to the extent that management expects it will be incurred on earnings repatriated in the foreseeable future.

The following table presents future income taxes in total, and the principal components:

As at December 31	2000	1999
Future income tax asset:		
Actuarial liabilities	$ 263	$ 604
Gains on sale of invested assets	471	421
Other	369	173
	$ 1,103	$ 1,198
Valuation allowance	(156)	(245)
Future income tax asset	$ 947	$ 953
Future income tax liability:		
Real estate	$ (260)	$ (232)
Securities	(100)	(129)
Other	(72)	(63)
Future income tax liability	$ (432)	$ (424)
Net future income tax asset	$ 515	$ 529

As at December 31, 2000, Manulife Financial and its subsidiaries have approximately $912 (1999 – $401) of tax loss carryforwards available, none of which expire in 2001. These tax loss carryforwards can be applied against future profits of the companies that have incurred those losses.

NOTE 6 *Subordinated Debt*

As at December 31	2000	1999
7⅞% U.S. dollar	$ 375	$ 361
8¼% U.K. pound	213	221
Total	$ 588	$ 582
Fair value	$ 613	$ 588

The fair value of subordinated debt is determined by reference to current market prices. Both issues form part of the Company's regulatory capital. To reduce exposure to foreign currency fluctuations, derivatives are used to convert the U.K. pound debt into Canadian and U.S. dollar liabilities.

The cash amount of interest paid during the year ended December 31, 2000 was $47 (1999 – $48).

a) 7 7/8 % U.S. dollar subordinated notes

During 1995, the Company issued U.S. $250 ($341) in 7 7/8 % subordinated notes due April 15, 2005. This debt was issued as a private placement under Rule 144A of the Securities Act (United States).

b) 8 1/4 % U.K. pound subordinated notes

On January 1, 1996, on amalgamation with North American Life Assurance Company, the Company assumed £100 ($202) in 8 1/4% subordinated notes redeemable on November 17, 2003. Concurrently, £5 ($10) of debt, which was held by the Company, was extinguished.

NOTE 7 *Trust Preferred Securities Issued by Subsidiaries*

As at December 31	2000	1999
Trust Preferred Securities	$ 756	$ 735

Capital Trust Pass-through Securities Units of U.S. $500 ($672) were issued by subsidiaries of Manulife Financial in January 1997, maturing February 1, 2027.

Each unit consists of one 8.25% Trust Preferred Security, issued by the trust subsidiary, and one 0.125% preferred purchase contract, issued by Manufacturers Investment Corporation ("MIC"). The trust subsidiary's only asset is an investment in notes issued by MIC. Holders of each purchase contract may be required to purchase 20 non-cumulative perpetual preferred shares, Series A of MIC, at U.S. $50 per share. Holders may satisfy this purchase by delivering the Trust Preferred Securities to MIC in exchange for the perpetual preferred shares.

The Securities Units were issued as a private placement under Rule 144A of the Securities Act (United States).

From the Company's perspective, the issue is equivalent to a combination of 8.25% subordinated debt maturing February 1, 2027, and an option exercisable by the Company, requiring contract holders to purchase an equivalent amount of perpetual preferred stock in MIC. The securities form part of the Company's regulatory capital.

NOTE 8 *Demutualization*

Manufacturers Life was organized as a mutual life insurance company until September 23, 1999. On that date, Manufacturers Life converted to a stock life insurance company with common shares following approval of its plan to demutualize by policyholders and the Minister of Finance (Canada). Manulife Financial Corporation ("Manulife Financial," the "Company") was incorporated on April 26, 1999 under the Insurance Companies Act (Canada) and on September 23, 1999, became an insurance holding company owning all of the outstanding shares of Manufacturers Life. To effect the conversion, the Company issued a total of 501 million common shares, of which 38 million were issued to certain underwriters at $18.00 per share and 100 million common shares were sold in a secondary offering by a custodian on behalf of certain policyholders who elected, or were otherwise required, to sell their common shares pursuant to the Plan of Demutualization. The remaining 363 million common shares were retained by policyholders and given a total nominal value of one dollar in the Company's records. Proceeds from the shares issued to the underwriters amounted to $694 and were used to fund payments by Manufacturers Life, in lieu of common shares, to certain policyholders in exchange for their ownership rights. All costs of services provided by outside vendors in respect of the conversion, amounting to $31 net of taxes, were treated as a capital transaction and, upon demutualization, were deducted from the surplus of Manufacturers Life. All costs of the secondary offering, amounting to $58 net of taxes, were treated as a capital transaction and deducted from the stated capital of the Company. All costs were paid from the general fund of the Company.

The assets, liabilities, equity and results of operations of Manufacturers Life have been presented in the consolidated financial statements of Manulife Financial Corporation on a continuity of interest basis.

NOTE 9 *Share Capital*

The authorized capital of the Company consists of:

a) an unlimited number of common shares without nominal or par value; and
b) an unlimited number of Class A and Class B preferred shares without nominal or par value, issuable in series.

On October 7, 1999, the Company announced the establishment of a normal course issuer bid program on The Toronto Stock Exchange (the "Exchange") authorizing the Company to purchase up to 25 million common shares, representing approximately 5% of common shares issued and outstanding at the time. The normal course issuer bid, accepted by the Exchange, commenced on October 12, 1999 and expired on October 11, 2000. Transactions were executed on the Exchange at the prevailing market price in amounts and at times determined by the Company. Any shares purchased as part of the bid were cancelled.

In 2000, the Company purchased and subsequently cancelled 12 million (1999 – 7 million) of its common shares at a total cost of $206 (1999 – $128). Common shares outstanding were reduced by $16 (1999 – $8) and retained earnings were reduced by $190 (1999 – $120).

As at December 31, 2000, the Company had 482 million (1999 – 494 million) common shares issued and outstanding.

For the years ended December 31	2000 Number of shares (in millions)	2000 Amount	1999 Number of shares (in millions)	1999 Amount
Common shares				
Balance, January 1	494	$ 628	–	$ –
Issued in public offering (note 8)	–	–	38	694
Less: issue costs, net of taxes (note 8)		–		(58)
		$ 628		$ 636
Issued to policyholders (note 8)	–	–	463	–
Normal course issuer bid – purchased for cancellation	(12)	(16)	(7)	(8)
Balance, December 31	482	$ 612	494	$ 628

NOTE 10 *Stock-Based Compensation*

Under the Company's Executive Stock Option Plan ("ESOP"), stock options are periodically granted to selected employees. Options provide the employee with the right to purchase common shares at an exercise price equal to the closing market price of the Company's common shares on The Toronto Stock Exchange on the business day immediately preceding the date the options were granted. The options vest over a four-year period and expire not more than 10 years from the grant date. As at December 31, 2000, a total of 36,800,000 common shares have been reserved for future issuance under the ESOP.

The Company also granted deferred share units ("DSUs") to certain employees. The DSUs vest over a four-year period and each unit entitles the holder to receive, at the Company's discretion, either one common share or the equivalent cash value on retirement or termination of employment. The DSUs attract dividends in the form of additional DSUs at the same rate as dividends on the common shares. As at December 31, 2000, no options or DSUs were granted to directors who are not full-time employees of the Company. The number of DSUs outstanding was 3 million as at December 31, 2000.

As at and for the year ended December 31, 2000	Number of options (in millions)	Weighted average exercise price	Expiry
Options			
Granted	5	$ 31.60	
Outstanding, December 31	5	$ 31.60	October 2010
Exercisable, December 31	1	$ 31.60	

Effective January 1, 2001, the Company established the Global Share Ownership Plan for its eligible employees and the Stock Plan for Non-Employee Directors.

Under the Company's Global Share Ownership Plan, qualifying employees can choose each year to have up to 5% of their annual base earnings withheld to purchase common shares of Manulife Financial. Subject to certain conditions, the Company will match 50% of the employee's eligible contributions. The Company's contributions vest immediately. All contributions will be used by the plan trustee to purchase common shares at the end of each month in the open market.

NOTE 11 *Earnings Per Share*

For the years ended December 31	2000	1999
Basic earnings per share		
Net income attributable to shareholders (after demutualization)	$ 1,075	$ 267
Weighted average number of shares outstanding	483 million	499 million
Basic earnings per share	$ 2.22	$ 0.53
Adjusted basic earnings per share		
Adjusted net income attributable to shareholders	$ 1,075	$ 874
Weighted average number of shares outstanding	483 million	501 million
Adjusted basic earnings per share(1)	$ 2.22	$ 1.75

(1) Adjusted basic earnings per share for the year ended December 31, 2000 is the same as basic earnings per share.

Basic earnings per share for the year was calculated using net income attributable to shareholders for the year ended December 31, 2000 and the weighted average of the number of shares outstanding for the year.

Basic earnings per share for the comparative period was calculated using net income attributable to shareholders after demutualization from September 24, 1999 to December 31, 1999 and the weighted average of the number of shares outstanding for that period. Adjusted basic earnings per share for the year ended December 31, 1999 was derived by using net income attributable to shareholders after demutualization plus net income attributable to mutual operations prior to demutualization and the weighted average of the number of common shares outstanding for the year ended December 31, 1999, assuming that common shares issued for demutualization and the initial public offering were outstanding at the beginning of the year.

NOTE 12 *Investment in Manulife Century Life Insurance Company*

In April 1999, the Company entered the Japanese life insurance market by establishing a new life insurance company, Manulife Century Life Insurance Company ("Manulife Century Life"), with a local company, Daihyaku Mutual Life Insurance Company ("Daihyaku Mutual").

To establish Manulife Century Life, in March 1999, the Company and Daihyaku Mutual each contributed Yen 40 billion ($515) in cash to be used for operating capital purposes and to acquire, for Yen 40 billion ($515), the business origination capacity of Daihyaku Mutual's sales force, its operations infrastructure, including tangible and intangible assets, material contracts and goodwill, and its business rights to sell new policies. While the Company and Daihyaku Mutual each initially owned 50% of the equity of Manulife Century Life, the Company owned 74.6% of the voting shares and controlled the Board of Directors.

At that time, the total consideration which could have been paid by Manulife Century Life to Daihyaku Mutual for the business infrastructure acquired was expected to effectively range from Yen 15 billion to Yen 100 billion. In addition, Manulife Financial's equity interest in Manulife Century Life could have increased over time. The total effective consideration which could have been paid and the ultimate equity interest were collectively dependent on Manulife Century Life's financial performance over the 15-year period following closing. The Company recorded an additional Yen 15 billion in goodwill and non-controlling interest in subsidiaries with respect to potential additional payments following closing.

This transaction was accounted for as a purchase and accordingly, the assets acquired by Manulife Century Life were recorded at their estimated fair values of $2 at the date of acquisition. The excess of the purchase price over the fair value of the assets acquired was recorded as goodwill (included in Other, Miscellaneous assets) and is being amortized on a straight-line basis over 20 years.

Effective May 31, 2000, a business suspension order was issued against Daihyaku Mutual by regulatory authorities in Japan and on June 1, 2000, administrators were appointed to manage Daihyaku Mutual's business. At that time and in accordance with the transaction structure between Manulife Century Life, the Company and Daihyaku Mutual, the total consideration which could have been paid by Manulife Century Life to Daihyaku Mutual for the business infrastructure acquired was estimated not to exceed Yen 40 billion. The total consideration paid and ultimate equity interest were dependent on Manulife Century Life's financial performance over the 5-year period following closing. Potential additional payments of Yen 15 billion recorded as goodwill and as non-controlling interest in subsidiaries as at March 31, 1999 were revised effective May 31, 2000 to reflect Manulife Century Life's expectation that such additional payments were no longer required.

Subsequent event

On January 25, 2001, the Company announced the signing of a definitive agreement between Manulife Century Life and the administrators of Daihyaku Mutual to assume Daihyaku Mutual's existing insurance policies. The completion of the transfer of insurance policies, scheduled to occur on April 2, 2001, is subject to the receipt of approval by regulatory authorities in Japan and Canada and Daihyaku Mutual's policyholders.

As a result of this transaction, the Company estimates that the fair value of the tangible assets to be transferred at closing and included in its general fund assets will be approximately $16.7 billion (Yen 1.3 trillion). The value attributed to any intangible assets has yet to be determined. Policy liabilities and other liabilities will increase by an amount commensurate with the total assets. These values are estimates and are subject to adjustments, once the closing balances have been finalized.

On this date, Manulife Financial agreed to acquire Daihyaku Mutual's minority interest in Manulife Century Life, making Manulife Century Life a wholly owned subsidiary of the Company.

NOTE 13 *Pensions and Other Post-Employment Benefits*

The Company maintains a number of pension and benefit plans for its eligible employees and agents. Information about the Company's benefit plans, in aggregate, is as follows:

For the years ended December 31	Pension benefits 2000	Pension benefits 1999	Other employee benefits 2000	Other employee benefits 1999
Change in benefit obligation:				
Balance, January 1	$ 594	$ 612	$ 114	$ 107
Service cost	27	19	6	6
Interest cost	40	37	8	7
Plan participants' contributions	1	1	–	–
Amendments	2	6	–	–
Actuarial loss (gain)	45	(33)	(9)	(2)
Benefits paid	(38)	(42)	(2)	(2)
Currency	4	(6)	1	(2)
Balance, December 31	$ 675	$ 594	$ 118	$ 114
Change in plan assets:				
Fair value of plan assets, January 1	$ 666	$ 647	$ –	$ –
Actual return on plan assets	48	68	–	–
Employer contribution	–	–	2	2
Plan participants' contributions	1	1	–	–
Benefits paid	(38)	(42)	(2)	(2)
Currency	5	(8)	–	–
Fair value of plan assets, December 31	$ 682	$ 666	$ –	$ –

As at December 31	Pension benefits 2000	Pension benefits 1999	Other employee benefits 2000	Other employee benefits 1999
Funded status, end of year	$ 7	$ 72	$ (118)	$ (114)
Unrecognized net actuarial gain	(28)	(70)	(64)	(59)
Unrecognized initial transition gain	(13)	(17)	–	–
Unrecognized prior service cost	15	15	–	–
Accrued pension liability	$ (19)	$ –	$ (182)	$ (173)
Amounts recognized in the Consolidated Balance Sheets consist of:				
Prepaid benefit-cost	$ 127	$ 121	$ –	$ –
Accrued benefit liability	(146)	(121)	(182)	(173)
Accrued pension liability	$ (19)	$ –	$ (182)	$ (173)

Components of the net benefit expense are as follows:

For the years ended December 31	Pension benefits 2000	Pension benefits 1999	Other employee benefits 2000	Other employee benefits 1999
Defined benefit service cost	$ 27	$ 19	$ 6	$ 6
Defined contribution service cost	13	11	–	–
Interest cost	40	37	8	7
Expected return on plan assets	(48)	(42)	–	–
Net amortizations and deferrals	(3)	2	(5)	(4)
Net benefit expense	$ 29	$ 27	$ 9	$ 9

For the years ended December 31	Pension benefits 2000	Pension benefits 1999
Weighted-average assumptions:		
Discount rate	6.8%	7.3%
Expected return on plan assets	8.1%	8.3%
Rate of compensation increase	3.4%	3.4%

Assumed health care cost trends have a significant effect on the amounts reported for the health care plan. The impact of a 100 basis-point change in assumed health care cost trend rates would be as follows:

	100 basis-point increase	100 basis-point decrease
Effect on total of service and interest costs	3	(2)
Effect on post-employment benefit obligation	20	(18)

Note 14 *Commitments and Contingencies*

a) Legal proceedings

The Company is subject to legal actions arising in the ordinary course of business. These legal actions are not expected to have a material adverse effect on the consolidated financial position of the Company.

b) Investment commitments

In the normal course of business, various investment commitments are outstanding which are not reflected in the consolidated financial statements. There were $267 of outstanding investment commitments as at December 31, 2000, of which $54 mature in 30 days, $194 mature in 31 to 365 days and $19 mature in 2002 or later. There were $193 of outstanding investment commitments as at December 31, 1999, of which $44 matured in 30 days, $125 matured in 31 to 365 days and $24 mature in 2001 or later.

c) Letters of credit

The Company issues letters of credit in the normal course of business. As at December 31, 2000, letters of credit in the amount of $1,434 (1999 – $887), including $13 (1999 – $13) against which assets have been pledged, are outstanding.

d) Pledged assets

In the normal course of business, certain of Manulife Financial's subsidiaries pledge their assets as security for liabilities incurred. The amounts pledged were as follows:

As at December 31	2000 Bonds	2000 Other	1999 Bonds	1999 Other
In respect of:				
Securities lent	$1,279	$ –	$1,074	$ –
Letters of credit	13	–	13	–
Derivatives	–	20	–	3
Regulatory requirements	38	–	35	–
Total	$1,330	$ 20	$1,122	$ 3

e) Capital requirements

Dividends and capital distributions are restricted under the Insurance Companies Act (Canada) ("ICA"). The ICA requires Canadian insurance companies to maintain at all times minimum levels of capital (which principally includes common shareholders' equity [including retained earnings], non-cumulative perpetual preferred shares, subordinated debt and the participating account) calculated in accordance with the Minimum Continuing Capital and Surplus Requirements. In addition to the requirements under Canadian law, the Company must also maintain minimum levels of capital for its foreign subsidiaries. Such amounts of capital are based on the local statutory accounting basis in each jurisdiction. The most significant of these are the Risk Based Capital requirements for the Company's United States insurance subsidiaries. The Company maintains capital well in excess of the minimum required in all foreign jurisdictions in which the Company does business.

There are additional restrictions on distributions in foreign jurisdictions in relation to shareholder dividends. In the United States, regulatory approval is required if a shareholder dividend distribution from a United States subsidiary company to the parent company would exceed that subsidiary company's earned surplus. Regulatory approval is also required if the distribution (together with other distributions during the previous year) exceeds the greater of the subsidiary's statutory net operating income for the previous year or 10% of its surplus determined at the end of the previous year. The determination must be made in accordance with statutory accounting principles. In 2000, the maximum amount of shareholder dividends transferable from a United States subsidiary to the parent company without permission was U.S. $92 (1999 – U.S. $61).

f) Participating business

In some territories where the Company maintains participating accounts, there are regulatory restrictions on the amounts of profit that can be transferred to shareholders. Where applicable, these restrictions generally take the form of a fixed percentage of the policyholder dividends. For participating business operated as separate "closed blocks," transfers are governed by the terms of Manufacturers Life's Plan of Demutualization.

Note 15 *Fair Value of Financial Instruments*

Financial instruments refer to both on- and off-balance sheet instruments and may be assets or liabilities. They are contracts that ultimately give rise to a right for one party to receive an asset and an obligation for another party to deliver an asset. Fair values are management's best estimates of the amounts at which instruments could be exchanged in a current transaction between willing parties and are generally calculated based on the characteristics of the instrument and the current economic and competitive environment. These calculations are subjective in nature, involve uncertainties and matters of significant judgement and do not include any tax impact.

Both the fair values and the basis for determining the fair value of invested assets, actuarial liabilities, borrowed funds, subordinated debt and derivative financial instruments are disclosed in notes 3, 4, 6 and 16, respectively.

The fair values of accrued investment income, outstanding premiums, other miscellaneous assets, policy benefits in the course of settlement, provision for unreported claims, policyholder amounts on deposit and other liabilities approximate their carrying values, due to their short-term nature.

The fair value of banking deposits is estimated at $586 as at December 31, 2000 (1999 – $329) compared to a carrying value of $592 as at December 31, 2000 (1999 – $333). The fair value of these financial instruments is determined by discounting the contractual cash flows, using market interest rates currently offered for deposits with similar terms and conditions.

NOTE 16 *Derivative Financial Instruments*

Derivative financial instruments are financial contracts, the values of which are derived from underlying assets or interest or foreign exchange rates. In the ordinary course of business, the Company enters into primarily over-the-counter contracts for asset liability management purposes. Derivatives such as foreign exchange contracts, interest rate and cross currency swaps, forward rate agreements and equity options are used to manage exposures to interest rate, foreign currency and equity fluctuations in order to ensure a consistent stream of earnings.

Interest rate and foreign exchange swaps are contractual agreements between the Company and a third party to exchange a series of cash flows. For interest rate swaps, counterparties generally exchange fixed and floating interest rate payments based on a notional value in a single currency. For foreign exchange swaps, fixed interest payments and notional amounts are exchanged in different currencies. Notional amount represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows. The notional principal amounts are not included in the Consolidated Balance Sheets.

Replacement cost represents the cost of replacing, at current market rates, all contracts with a positive fair value. The amounts do not take into consideration legal contracts which permit offsetting of positions or any collateral which may be obtained.

Credit risk equivalent is the sum of replacement cost and the potential future credit exposure. The potential future credit exposure represents the potential for future changes in value based upon a formula prescribed by OSFI.

Risk-weighted amount represents the credit risk equivalent, weighted according to the creditworthiness of the counterparty, as prescribed by OSFI.

Fair value is summarized by derivative type and represents the net unrealized gain or loss, accrued interest receivable or payable, and premiums paid or received.

The Company has the following amounts outstanding:

	Remaining term to maturity (notional amounts)				Fair value				
As at December 31 2000	Under 1 year	1 to 5 years	Over 5 years	Total	Positive	Negative	Net	Credit risk equivalent	Risk-weighted amount
Interest rate contracts:									
Swap contracts	$ 403	$ 1,405	$ 1,564	$ 3,372	$ 34	$ (34)	$ –	$ 49	$ 17
Futures contracts	65	–	–	65	–	–	–	–	–
Options written	–	–	32	32	–	–	–	–	–
Sub-total	$ 468	$ 1,405	$ 1,596	$ 3,469	$ 34	$ (34)	$ –	$ 49	$ 17
Foreign exchange:									
Swap contracts	502	703	666	1,871	18	(97)	(79)	108	31
Forward contracts	2,930	–	–	2,930	45	(11)	34	74	20
Equity contracts	435	33	–	468	7	(25)	(18)	26	3
Total	$ 4,335	$ 2,141	$ 2,262	$ 8,738	$ 104	$ (167)	$ (63)	$ 257	$ 71
1999									
Interest rate contracts:									
Swap contracts	$ 263	$ 1,328	$ 1,527	$ 3,118	$ 39	$ (35)	$ 4	$ 69	$ 22
Futures contracts	165	–	–	165	–	–	–	–	–
Options written	7	–	31	38	–	–	–	–	–
Sub-total	$ 435	$ 1,328	$ 1,558	$ 3,321	$ 39	$ (35)	$ 4	$ 69	$ 22
Foreign exchange:									
Swap contracts	–	1,034	480	1,514	64	(33)	31	152	34
Forward contracts	2,052	–	–	2,052	55	(4)	51	75	16
Equity contracts	171	13	–	184	20	–	20	28	7
Total	$ 2,658	$ 2,375	$ 2,038	$ 7,071	$ 178	$ (72)	$ 106	$ 324	$ 79

NOTE 17 *Segmented Information*

The Company provides a wide range of financial products and services, including individual life insurance, group life and health insurance, pension products, annuities and mutual funds to individual and group customers in the United States, Canada and Asia. The Company also offers reinsurance services, primarily life and accident and health reinsurance, and provides investment management services with respect to the Company's general fund assets, segregated fund assets and mutual funds and, in Canada, to institutional customers.

The Company's business segments include the U.S., Canadian, Asian and Reinsurance divisions. Each division has profit and loss responsibility and develops products, services and distribution strategies based on the profile of its business and the needs of its market.

The accounting policies of the segments are the same as those described in note 1, Nature of operations and significant accounting policies.

The results of the Company's business segments differ from geographic segmentation primarily as a consequence of segmenting the results of the Company's Reinsurance Division into the different geographic segments to which its business pertains.

By segment

For the year ended December 31, 2000	U.S. Division	Canadian Division	Asian Division	Reinsurance Division	Other	Total
Revenue						
Premium income						
Life and health insurance	$ 1,662	$ 1,882	$ 1,740	$ 768	$ –	$ 6,052
Annuities and pensions	1,686	606	171	–	–	2,463
Total premium income	$ 3,348	$ 2,488	$ 1,911	$ 768	$ –	$ 8,515
Investment income	1,925	1,587	353	194	291	4,350
Other revenue	885	249	80	22	51	1,287
Total revenue	$ 6,158	$ 4,324	$ 2,344	$ 984	$ 342	$ 14,152
Interest expense	$ 56	$ 51	$ 40	$ 2	$ 42	$ 191
Income before income taxes	$ 645	$ 350	$ 206	$ 132	$ 8	$ 1,341
Income taxes	(168)	(75)	(13)	(24)	7	(273)
Net income	$ 477	$ 275	$ 193	$ 108	$ 15	$ 1,068
Amortization of realized and unrealized gains	$ 255	$ 119	$ 39	$ 6	$ 224	$ 643
Segregated fund deposits	$ 12,650	$ 1,681	$ 446	$ –	$ –	$ 14,777
As at December 31, 2000						
Actuarial liabilities	$ 20,180	$ 16,130	$ 4,041	$ 819	$ 214	$ 41,384
Funds under management						
General fund	$ 25,105	$ 21,097	$ 7,223	$ 3,259	$ 3,383	$ 60,067
Segregated funds	44,370	9,394	1,144	–	–	54,908
Mutual funds	–	1,359	204	–	–	1,563
Other managed funds	–	–	748	–	6,234	6,982

By geographic location

For the year ended December 31, 2000	United States	Canada	Asia	Other	Total
Revenue					
Premium income					
Life and health insurance	$ 1,966	$ 1,934	$ 1,745	$ 407	$ 6,052
Annuities and pensions	1,686	606	171	–	2,463
Total premium income	$ 3,652	$ 2,540	$ 1,916	$ 407	$ 8,515
Investment income	2,025	1,944	354	27	4,350
Other revenue	899	288	80	20	1,287
Total revenue	$ 6,576	$ 4,772	$ 2,350	$ 454	$ 14,152

By segment

For the year ended December 31, 1999	U.S. Division	Canadian Division	Asian Division	Reinsurance Division	Other	Total
Revenue						
Premium income						
Life and health insurance	$ 1,703	$ 2,416	$ 1,431	$ 816	$ 2	$ 6,368
Annuities and pensions	1,390	812	102	–	–	2,304
Total premium income	$ 3,093	$ 3,228	$ 1,533	$ 816	$ 2	$ 8,672
Investment income	1,888	1,697	310	169	305	4,369
Other revenue	678	197	69	11	60	1,015
Total revenue	$ 5,659	$ 5,122	$ 1,912	$ 996	$ 367	$ 14,056
Interest expense	$ 42	$ 35	$ 35	$ 2	$ 65	$ 179
Income before income taxes	$ 561	$ 294	$ 127	$ 145	$ 41	$ 1,168
Income taxes	(196)	(61)	12	(40)	(17)	(302)
Net income	$ 365	$ 233	$ 139	$ 105	$ 24	$ 866
Amortization of realized and unrealized gains	$ 347	$ 211	$ 51	$ 14	$ 164	$ 787
Segregated fund deposits	$ 9,031	$ 1,347	$ 331	$ –	$ –	$ 10,709
As at December 31, 1999						
Actuarial liabilities	$ 19,310	$ 16,441	$ 3,086	$ 775	$ 136	$ 39,748
Funds under management						
General fund	$ 23,648	$ 20,700	$ 5,763	$ 2,794	$ 3,803	$ 56,708
Segregated funds	39,389	8,341	1,325	–	–	49,055
Mutual funds	–	1,477	164	–	–	1,641
Other managed funds	–	–	–	–	4,732	4,732

By geographic location

For the year ended December 31, 1999	United States	Canada	Asia	Other	Total
Revenue					
Premium income					
Life and health insurance	$ 2,110	$ 2,535	$ 1,435	$ 288	$ 6,368
Annuities and pensions	1,390	812	102	–	2,304
Total premium income	$ 3,500	$ 3,347	$ 1,537	$ 288	$ 8,672
Investment income	1,986	2,025	313	45	4,369
Other revenue	690	238	69	18	1,015
Total revenue	$ 6,176	$ 5,610	$ 1,919	$ 351	$ 14,056

NOTE 18 *Material Differences Between Canadian and United States Generally Accepted Accounting Principles*

The consolidated financial statements of the Company are presented in accordance with Canadian GAAP. Canadian GAAP differs in certain material respects from accounting principles generally accepted in the United States ("U.S. GAAP"). The following is a summary of such material differences.

a) Reconciliation of Canadian GAAP net income and equity to U.S. GAAP net income, comprehensive income and equity

	Net income		Equity	
For the years ended December 31	2000	1999	2000	1999
Net income and equity determined in accordance with Canadian GAAP	$ 1,068	$ 866	$ 7,211	$ 6,454
Bonds	(252)	(414)	798	1,026
Mortgages	(7)	59	(123)	(113)
Stocks	1,653	(272)	1,931	247
Real estate	(81)	(23)	(762)	(669)
Actuarial liabilities	(1,017)	(311)	(4,974)	(3,852)
Deferred acquisition costs	904	855	5,217	4,221
Deferred revenue	(94)	(80)	(273)	(172)
Future income taxes	43	(15)	(378)	(417)
Demutualization expenses[1]	–	(33)	–	–
Other reconciling items	(58)	120	95	153
Net income and equity determined in accordance with U.S. GAAP	$ 2,159	$ 752	$ 8,742	$ 6,878
Foreign currency translation	102	(208)	–	–
Effect of unrealized gains and losses on available-for-sale bonds and stocks:				
Bonds	1,334	(2,879)	1,291	(43)
Stocks	(1,686)	918	976	2,662
Actuarial liabilities	(318)	1,617	(826)	(507)
Deferred acquisition costs	85	234	(70)	(155)
Deferred revenue	11	(32)	2	(10)
Future income taxes on above	1	198	(351)	(352)
Comprehensive income and equity determined in accordance with U.S. GAAP	$ 1,688	$ 600	$ 9,764	$ 8,473

(1) Under U.S. GAAP, demutualization expenses are presented as expenses in the Consolidated Statements of Operations.

b) Valuation and income recognition differences between Canadian GAAP and U.S. GAAP

	Canadian GAAP	U.S. GAAP
Bonds	Bonds are carried at amortized cost, less an allowance for specific losses. Allowances are provided on a specific bond whenever a decline in the value of the bond is considered to be other than temporary. Realized gains and losses on sale are deferred and brought into income over the lesser of the remaining term to maturity of the security sold or 20 years.	Bonds may be classified as "available-for-sale," "held to maturity" or "trading" securities. All bonds are classified as "available-for-sale" by the Company and are carried at fair value in the Consolidated Balance Sheets. A decline in the value of a specific bond that is considered to be other than temporary results in a write-down in the cost basis of the bond and a charge to income in the period of recognition. Realized gains and losses on sale are recognized in income immediately. Unrealized gains and losses are excluded from income and reported net of tax as a separate component of equity.
Mortgages	Mortgages are carried at amortized cost less repayments and an allowance for specific losses. Realized gains and losses are deferred and brought into income over the lesser of the remaining term to maturity of the mortgage or loan sold or 20 years.	Mortgages are carried at amortized cost less repayments and an allowance for specific losses. Realized gains and losses are recognized in income immediately.
Stocks	Stocks are carried at a moving average market basis whereby carrying values are adjusted towards market value at 15% per annum. Specific stocks are written down to fair value if an impairment in the value of the entire stock portfolio (determined net of deferred realized gains) is considered to be other than temporary. Realized gains and losses are deferred and brought into income at the rate of 15% of the unamortized deferred realized gains and losses each year.	Stocks may be classified as "available-for-sale" or "trading" securities. All stocks are classified as "available-for-sale" by the Company and are carried at fair value in the Consolidated Balance Sheets. Other than temporary declines in the value of stocks result in a write-down in the cost basis of the stocks and a charge to income in the period of recognition. Realized gains and losses are recognized in income immediately. Unrealized gains and losses are excluded from income and reported net of tax as a separate component of equity.

	Canadian GAAP	U.S. GAAP
Real estate	Real estate is carried at a moving average market basis whereby the carrying values are adjusted towards market value at 10% per annum. Specific properties are written down to market value if an impairment in the value of the entire real estate portfolio (determined net of deferred realized gains) is considered to be other than temporary. Realized gains and losses are deferred and brought into income at the rate of 10% of the unamortized deferred realized gains and losses each year.	Real estate is carried at cost less accumulated depreciation. Specific properties are written down, taking into account discounted cash flows, if an impairment in the value of the property is considered to be other than temporary. Realized gains and losses are recognized in income immediately.
Actuarial liabilities	Actuarial liabilities for all types of policies are calculated using the policy premium method and represent the amount which, together with estimated future premiums and net investment income, will be sufficient to pay estimated future benefits, policyholder dividends, tax (other than income taxes) and expenses on policies inforce. Actuarial liabilities are comprised of a best estimate reserve and provisions for adverse deviation. Best estimate reserve assumptions are made for the lifetime of the policies and include assumptions with respect to mortality and morbidity trends, investment returns, rates of policy termination, policyholder dividend payments, operating expenses and certain taxes. To recognize the uncertainty in the assumptions underlying the calculation of best estimate reserves, to allow for possible deterioration in experience and to provide greater comfort that reserves are adequate to pay future benefits, the Appointed Actuary is required to add a margin to each assumption. These margins result in the calculation of provisions for adverse deviation, the impact of which is to increase actuarial liabilities and decrease the income that would otherwise be recognized when products are sold. Assumptions are updated regularly and the effects of any changes in assumptions are recognized in income immediately. The provisions for adverse deviations are recognized in income over the term of the policy as the risk of deviation from estimates declines.	There are three main standards for valuing actuarial liabilities as follows: Statement of Financial Accounting Standards No. 60, "Accounting and Reporting by Insurance Enterprises" ("FAS 60") applies to non-participating insurance, including whole life and term insurance, payout annuities, disability insurance and certain reinsurance contracts. Actuarial liabilities are calculated using a net level premium method and represent the present value of future benefits to be paid to, or on behalf of, policyholders and related expenses, less the present value of future net premiums. The assumptions include expected investment yields, mortality, morbidity, terminations and maintenance expenses. A provision for adverse deviation is also included. The assumptions are based on best estimates of long-term experience at the time of policy issue. The assumptions are not changed for future valuations unless it is determined that future income is no longer adequate to recover the existing Deferred Acquisition Costs ("DAC"), in which case the DAC is reduced or written off and, to the extent necessary, actuarial liabilities are increased. The actuarial liabilities may not subsequently be reduced if the circumstances causing the strengthening are no longer applicable. Statement of Financial Accounting Standards No. 97, "Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments" ("FAS 97") applies to universal life type contracts and investment contracts. The actuarial liability for these contracts is equal to the policyholder account value. There is no provision for adverse deviation. If it is determined that future income for universal life type contracts is no longer adequate to recover the existing DAC, the DAC is reduced or written off and, to the extent necessary, actuarial liabilities are increased. The actuarial liabilities may not subsequently be reduced if the circumstances causing the strengthening are no longer applicable. Statement of Financial Accounting Standards No. 120, "Accounting and Reporting by Mutual Life Enterprises and by Insurance Enterprises for Certain Long-Duration Participating Contracts" ("FAS 120") applies to participating insurance contracts. The actuarial liability for these contracts is computed using a net level premium method with mortality and interest assumptions consistent with the non-forfeiture assumptions. There is no provision for adverse deviation. The assumptions are not changed unless it is determined that future income is no longer adequate to recover the existing DAC, in which case the DAC is reduced or written off and, to the extent necessary, actuarial liabilities increased. The actuarial liabilities may not subsequently be reduced if the circumstances causing the strengthening are no longer applicable. In addition, in accordance with Emerging Issues Task Force Topic No. D-41 ("EITF D-41"), U.S. GAAP requires that actuarial liabilities be adjusted to reflect the changes that would have been necessary if the unrealized gains on bonds and stocks had been realized. This adjustment to actuarial liabilities is recognized directly in equity and is not included in income.
Deferred acquisition costs	All policy acquisition costs are expensed as incurred. The computation of actuarial liabilities takes this into consideration.	Acquisition costs which vary with, and are primarily related to, the production of new business are deferred and recorded as an asset. This DAC asset is amortized into income in proportion to different measures, depending on the policy type. The DAC associated with FAS 60 policies are amortized and charged to income in proportion to premium income recognized. For non-participating limited payment policies, including annuities not classified as investment contracts, the DAC are amortized in proportion to the amount of the expected future benefit payments for payout annuities and in proportion to face amount for insurance contracts. The DAC associated with FAS 97 and FAS 120 policies (i.e. universal life type contracts, investment contracts and participating insurance contracts) are amortized and charged to income in proportion to the estimated gross profit margins expected to be realized over the life of the contracts. Under FAS 97 and FAS 120, the assumptions used to estimate future gross profits change as experience emerges. In addition, EITF D-41 requires that DAC related to FAS 97 and FAS 120 contracts should be adjusted to reflect the changes that would have been necessary if the unrealized gains and losses on available-for-sale bonds and stocks had actually been realized. This adjustment to DAC is recognized directly in equity and is not included in income.
Deferred revenue	All premium income is recorded as revenue. The anticipated costs of future services are included within the actuarial liabilities.	Under FAS 97, fees assessed to policyholders relating to services that are to be provided in future years are recorded as deferred revenue. Deferred revenue is amortized to income in the same pattern as DAC.

c) Presentation differences between Canadian GAAP and U.S. GAAP

	Canadian GAAP	U.S. GAAP
Premiums	All premium income is reported as revenue when due. A partially offsetting increase in actuarial liabilities for the related policies is recorded in the Consolidated Statements of Operations.	Under FAS 60 and FAS 120, gross premiums are reported as revenue when due. A partially offsetting increase in actuarial liabilities for the related policies is recorded in the Consolidated Statements of Operations. Premiums collected on FAS 97 contracts are not reported as revenue in the Consolidated Statements of Operations but are recorded as deposits to policyholders' account balances. Fees assessed against policyholders' account balances relating to mortality charges, policy administration and surrender charges are recognized as revenue.
Death, maturity and surrender benefits	All death, maturity and surrender benefits are reported in the Consolidated Statements of Operations when incurred. Additionally, to the extent these amounts have previously been provided for in actuarial liabilities, a corresponding release of actuarial liabilities is recorded in the Consolidated Statements of Operations.	For FAS 60 and FAS 120 contracts, all death, maturity and surrender benefits are reported in the Consolidated Statements of Operations when incurred. Additionally, to the extent these amounts have previously been provided for in actuarial liabilities, a corresponding release of actuarial liabilities is recorded in the Consolidated Statements of Operations. For universal life type contracts and investment contracts accounted for under FAS 97, benefits incurred in the period in excess of related policyholders' account balances are recorded in the Consolidated Statements of Operations.
Change in actuarial liabilities	Interest credited on policyholders' account balances is included in change in actuarial liabilities in the Consolidated Statements of Operations.	Interest required to support FAS 97 contracts is included in actuarial liabilities in the Consolidated Balance Sheets and is classified in general expenses in the Consolidated Statements of Operations.
Segregated fund assets and liabilities	Investments held in segregated funds are carried at market value. Segregated funds are managed separately from those of the general fund of the Company and are, therefore, presented in a separate schedule and are not included in the general fund Consolidated Balance Sheets or Consolidated Statements of Operations.	Assets and liabilities are called separate accounts and are presented in summary lines in the Consolidated Balance Sheets. Assets and liabilities are carried at market values and contract values, respectively.
Consolidated statements of cash flows	The cash flows from investment contracts, including deferred annuities and group pensions, are disclosed as an operating activity in the Consolidated Statements of Cash Flows.	The cash flows from investment contracts accounted for under FAS 97 are disclosed as a financing activity in the Consolidated Statements of Cash Flows.
Reinsurance	Reinsurance recoverables relating to ceded life insurance risks and ceded annuity contract risks are recorded as an offset to actuarial liabilities.	Where transfer of risk has occurred, life insurance actuarial liabilities are presented as a gross liability with the reinsured portion included as reinsurance recoverable. Actuarial liabilities related to annuities are also presented on a gross basis with the reinsured portions accounted for as deposits with reinsurers.
Equity	To reflect the demutualization of Manufacturers Life, equity is presented on a continuity of interest basis and, as such, surplus is reclassified to retained earnings net of the costs of services provided by outside vendors in respect of demutualization in the Consolidated Balance Sheets as at December 31, 1999. Shares issued to policyholders are recorded at nominal value and shares issued in a treasury offering are recorded at proceeds received net of share issuance costs in the Consolidated Balance Sheets.	Surplus is reclassified to share capital net of share issuance costs. Shares issued in a treasury offering are recorded at proceeds received net of share issuance costs. Costs incurred to effect the demutualization of Manufacturers Life are expensed in the Consolidated Statements of Operations.

d) Condensed consolidated balance sheets, applicable items

The significant valuation, income recognition and presentation differences between Canadian and U.S. GAAP outlined in notes 18 b) and 18 c) would impact the Consolidated Balance Sheets as follows:

	2000		1999	
As at December 31	Canadian GAAP	U.S. GAAP	Canadian GAAP	U.S. GAAP
Assets				
Bonds	$ 33,270	$ 34,561	$ 30,853	$ 30,810
Mortgages	7,174	7,009	6,867	6,705
Stocks	4,621	4,997	4,832	6,642
Real estate	3,262	2,450	3,179	2,445
Other investments	884	923	1,180	1,260
Deferred acquisition costs	–	5,147	–	4,066
Future income taxes	515	–	529	–
Reinsurance deposits and amounts recoverable	–	1,467	–	1,520
Other miscellaneous assets	1,621	1,664	1,930	1,949
Liabilities and equity				
Actuarial liabilities	$ 41,384	$ 48,279	$ 39,748	$ 45,353
Other policy-related benefits	3,171	3,543	2,688	2,978
Future income taxes	–	214	–	240
Deferred realized net gains	3,434	–	2,266	–
Other liabilities	1,798	2,164	2,425	2,624
Non-controlling interest in subsidiaries	299	205	750	692
Common shares and retained earnings	7,211	8,742	6,454	6,878
Accumulated effect of comprehensive income on equity	–	1,022	–	1,595

e) Condensed consolidated statements of operations, applicable items

The significant valuation, income recognition and presentation differences between Canadian and U.S. GAAP outlined in notes 18 b) and 18 c) would impact the Consolidated Statements of Operations as follows:

	2000		1999	
For the years ended December 31	Canadian GAAP	U.S. GAAP	Canadian GAAP	U.S. GAAP
Revenue				
Premium income	$ 8,515	$ 4,934	$ 8,672	$ 5,479
Fee income	–	1,534	–	1,283
Investment income	4,350	3,681	4,369	3,617
Realized investment gains	–	1,911	–	146
Other revenue	1,287	131	1,015	106
Policy benefits and expenses				
Policyholder payments	$ 8,513	$ 4,933	$ 7,346	$ 4,370
Change in actuarial liabilities	822	1,425	2,628	2,173
Expenses	3,413	3,382	2,852	2,957
Income taxes	$ (273)	$ (229)	$ (302)	$ (317)
Net income	$ 1,068	$ 2,159	$ 866	$ 752

f) Additional information required to be reported under U.S. GAAP

(i) Deferred acquisition costs

Changes in deferred acquisition costs were as follows:

For the years ended December 31	2000	1999
Balance, January 1	$ 4,066	$ 3,169
Capitalization	1,443	1,060
Accretion of interest	305	265
Amortization	(843)	(470)
Effect of net unrealized gains and losses on bonds and stocks	85	234
Foreign currency translation adjustment	91	(192)
Balance, December 31	$ 5,147	$ 4,066

(ii) Unrealized gains (losses) on bonds and stocks

Net unrealized gains (losses) on bonds and stocks included in equity were as follows:

As at December 31	2000	1999
Gross unrealized gains	$ 3,089	$ 3,814
Gross unrealized losses	(822)	(1,195)
Effect on deferred acquisition cost asset	(70)	(155)
Effect on unearned revenue liability	2	(10)
Effect on actuarial liabilities	(826)	(507)
Effect on future income taxes	(351)	(352)
Total	$ 1,022	$ 1,595

(iii) Fair value of actuarial liabilities of investment contracts

The fair value of actuarial liabilities of investment contracts as at December 31, 2000 was estimated at $9,324 (1999 – $8,042).

(iv) Stock-based compensation

The Company uses the intrinsic value method of accounting for stock-based compensation.

The fair value of each option granted in the year has been estimated at $10.41 using the Black-Scholes option pricing model. The pricing model assumes risk-free interest rates of 5.8%, expected dividend yields of 1.5% annually, expected common stock price volatility of 24% and expected life of seven years.

The fair value method requires that the compensation cost related to deferred share units ("DSUs") be measured as the intrinsic value of the DSUs at the grant date and recognized over the vesting period.

Had the fair value method been used for all awards granted, net income for the year ended December 31, 2000 would have been reduced by $12, and both basic and diluted earnings per share reduced by $0.02.

(v) Earnings per share

Basic earnings per share for the comparative period is not provided, as a reconciliation from Canadian GAAP net income to U.S. GAAP net income is provided only on an annual basis and a reconciliation was not available for the period from September 24, 1999 to December 31, 1999.

Diluted earnings per share was calculated to include the dilutive effect of outstanding options, using the treasury stock method, and also deferred share units. Under this method, exercise of options is assumed with the proceeds used to purchase common stock at the average market price for the period. The difference between the number of shares assumed issued and number of shares purchased represents dilutive shares. Adjusted diluted earnings per share for the year ended December 31, 2000 is the same as diluted earnings per share.

For the years ended December 31	2000	1999
Basic earnings per share		
Net income (after demutualization)	$ 2,159	Not available
Weighted average number of shares outstanding	483 million	
Basic earnings per share	$ 4.47	Not available
Adjusted basic earnings per share		
Adjusted net income	$ 2,159	$ 752
Weighted average number of shares outstanding	483 million	501 million
Adjusted basic earnings per share	$ 4.47	$ 1.50
Diluted earnings per share		
Net income (after demutualization)	$ 2,159	Not available
Weighted average number of shares outstanding	483 million	
Impact of options and DSUs	1 million	
Weighted average diluted number of shares outstanding	484 million	
Diluted earnings per share	$ 4.46	Not available
Adjusted diluted earnings per share		
Adjusted net income	$ 2,159	$ 752
Weighted average number of shares outstanding	483 million	501 million
Impact of options and DSUs	1 million	–
Weighted average diluted number of shares outstanding	484 million	501 million
Adjusted diluted earnings per share	$ 4.46	$ 1.50

g) Newly issued accounting statements

In June 1998, the U.S. Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative and Similar Financial Instruments and for Hedging Activities." This Statement, which is effective as of January 1, 2001 for the Company, requires that all derivative instruments be reported on the Consolidated Balance Sheets at their fair values, with changes in fair value recorded in income or equity, depending on the nature of the hedge. Changes in the fair value of derivatives that are not designated as hedges will be recognized in current period earnings. The Statement does not form any part of Canadian GAAP and therefore would not impact the Company's reporting on this basis. However, it would impact the Company's reconciliation of Canadian GAAP financial statements to U.S. GAAP.

Based on the Company's derivative positions as at December 31, 2000, the Company estimates that upon adoption, it will record an after-tax gain from the cumulative effect of an accounting change of approximately $13 in the Consolidated Statements of Operations and a reduction of $14 in other comprehensive income relating to derivatives but excluding embedded derivatives in the Company's insurance products. As formal interpretations of this new standard continue to be issued by the FASB, the Company is continuing its analysis of insurance products in order to identify embedded derivatives that may require bifurcation under the Statement. Any embedded derivatives identified requiring bifurcation will be marked to market through earnings reported under U.S. GAAP.

Note 19 *Comparatives*

Certain comparative amounts have been reclassified to conform with the current year's presentation.

Supplementary Tables

TABLE 1 *Key Performance Measures*

(Canadian $ in millions unless otherwise stated)	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
Net income	1,068	866	710	743	503	481	281	187	85	201	124
Net operating income	1,068	866	710	624	503	372	281	187	85	201	187
Adjusted shareholders' net income	1,075	874	710	743	503	481	281	187	85	201	124
Capital(1)	8,555	7,771	7,415	6,377	4,859	3,826	3,052	2,771	2,584	2,162	2,174
Operating return on shareholders' equity (%)(2)	16.1%	14.0%	12.9%	13.6%	12.4%	11.4%	9.6%	7.0%	3.3%	9.7%	8.9%
Operating return on assets (%)	1.84%	1.58%	1.37%	1.28%	1.08%	0.93%	0.71%	0.51%	0.26%	0.71%	0.75%
Capital(1) as a per cent of liabilities	16.7%	16.1%	16.2%	14.4%	11.5%	10.6%	8.2%	7.8%	8.0%	7.6%	9.0%

(1) Capital includes: Total equity (formerly surplus), Subordinated debt and Trust preferred securities issued by subsidiaries
(2) Previously reported as operating return on surplus

TABLE 2 *Summary Consolidated Balance Sheets*

As at December 31 (Canadian $ in millions)	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
Assets											
Bonds	33,270	30,853	30,691	28,662	25,627	21,259	18,452	16,763	14,805	12,382	10,816
Mortgages	7,174	6,867	7,702	7,809	8,106	6,917	8,555	9,368	9,565	9,052	7,799
Stocks	4,621	4,832	4,042	3,529	2,796	2,592	2,954	2,684	2,260	2,249	1,767
Real estate	3,262	3,179	2,992	2,806	3,044	2,888	3,350	3,395	3,275	2,873	2,602
Policy loans	3,616	3,207	3,137	2,663	2,354	1,973	1,856	1,651	1,425	1,187	1,082
Cash and short-term investments	3,783	3,047	1,329	1,842	2,600	1,792	2,683	2,447	1,554	1,724	1,198
Other investments	884	1,180	499	479	292	173	209	368	557	571	332
Total invested assets	56,610	53,165	50,392	47,790	44,819	37,594	38,059	36,676	33,441	30,038	25,596
Other assets	3,457	3,543	2,710	2,733	2,424	2,268	2,168	1,818	1,459	711	656
Total assets	60,067	56,708	53,102	50,523	47,243	39,862	40,227	38,494	34,900	30,749	26,252
Liabilities											
Actuarial liabilities	41,384	39,748	38,738	37,227	36,248	31,257	31,296	29,028	26,666	23,219	20,777
Other liabilities	9,829	8,439	6,873	6,865	6,088	4,759	5,863	6,678	5,635	5,351	3,290
Subordinated debt	588	582	627	581	566	341	–	–	–	–	–
Non-controlling interest in subsidiaries	299	750	76	54	48	20	16	17	15	17	11
Trust preferred securities issued by subsidiaries	756	735	783	728	–	–	–	–	–	–	–
Total equity(1)	7,211	6,454	6,005	5,068	4,293	3,485	3,052	2,771	2,584	2,162	2,174
Total liabilities and equity	60,067	56,708	53,102	50,523	47,243	39,862	40,227	38,494	34,900	30,749	26,252

(1) Previously reported as surplus

TABLE 3 *Summary Consolidated Statements of Equity(1)*

For the years ended December 31 (Canadian $ in millions)	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
Balance, January 1	6,454	6,005	5,068	4,293	3,485	3,052	2,771	2,584	2,162	2,174	2,050
Net income for the year	1,068	866	710	743	503	481	281	187	85	201	124
Adjustment to equity(1)	–	–	–	(48)	321	–	–	–	337	(213)	–
Conversion costs	–	(31)	–	–	–	–	–	–	–	–	–
Shareholder dividends	(193)	–	–	–	–	–	–	–	–	–	–
Cash distributions to policyholders	–	(694)	–	–	–	–	–	–	–	–	–
Issue of common shares	–	694	–	–	–	–	–	–	–	–	–
Initial public offering costs	–	(58)	–	–	–	–	–	–	–	–	–
Purchase & cancellation of common shares	(206)	(128)	–	–	–	–	–	–	–	–	–
Change in Currency Translation Account	88	(200)	227	80	(16)	(48)	–	–	–	–	–
Balance, December 31	7,211	6,454	6,005	5,068	4,293	3,485	3,052	2,771	2,584	2,162	2,174

(1) Previously reported as surplus

TABLE 4 *Summary Consolidated Statements of Operations*

For the years ended December 31 (Canadian $ in millions)	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
Revenue											
Premium income	8,515	8,672	5,696	5,622	5,694	5,193	4,988	4,456	4,104	4,000	3,933
Investment income	4,350	4,369	4,123	4,010	3,734	3,231	2,882	2,853	2,744	2,635	2,447
Other revenue	1,287	1,015	792	574	447	212	218	151	102	106	102
Total revenue	14,152	14,056	10,611	10,206	9,875	8,636	8,088	7,460	6,950	6,741	6,482
Policy benefits and expenses											
Payments to policyholders and beneficiaries	7,654	6,608	6,385	6,508	5,883	5,132	4,678	3,764	3,239	2,722	2,665
Increase in actuarial liabilities	822	2,628	252	169	873	1,089	1,214	1,788	2,004	2,378	2,272
Policyholder dividends and experience rating refunds	859	738	604	508	471	356	312	267	247	212	192
General expenses and commissions	3,277	2,703	2,118	1,868	1,693	1,220	1,204	1,058	996	910	893
Interest expense	191	179	158	156	161	203	243	281	297	223	183
Premium taxes	96	84	74	83	72	64	57	50	52	38	37
Non-controlling interest in subsidiaries	(151)	(114)	7	11	6	2	1	2	(3)	–	–
Trust preferred securities issued by subsidiaries	63	62	62	54	–	–	–	–	–	–	–
Total policy benefits and expenses	12,811	12,888	9,660	9,357	9,159	8,066	7,709	7,210	6,832	6,483	6,242
Income before preferred share dividends, unusual items and income taxes	1,341	1,168	951	849	716	570	379	250	118	258	240
Preferred share dividends	–	–	–	–	–	–	–	–	(16)	(16)	(16)
Unusual items	–	–	–	176	–	126	–	–	–	–	(63)
Income taxes	(273)	(302)	(241)	(282)	(213)	(215)	(98)	(63)	(17)	(41)	(37)
Net income	1,068	866	710	743	503	481	281	187	85	201	124
Net loss attributed to:											
Participating policyholders (after demutualization)	(7)	(8)	–	–	–	–	–	–	–	–	–
Net income attributed to:											
Shareholders (after demutualization)	1,075	267	–	–	–	–	–	–	–	–	–
Mutual operations (prior to demutualization)	–	607	710	743	503	481	281	187	85	201	124
Adjusted shareholders' net income	1,075	874	710	743	503	481	281	187	85	201	124
Net income	1,068	866	710	743	503	481	281	187	85	201	124

TABLE 5 *Funds under Management*

As at December 31 (Canadian $ in millions)	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
Funds under management by category											
General fund	60,067	56,708	53,102	50,523	47,243	39,862	40,227	38,494	34,900	30,749	26,252
Segregated funds	54,908	49,055	38,200	27,018	18,553	5,532	5,445	4,012	2,734	2,270	1,905
Mutual funds	1,563	1,641	1,708	2,125	2,782	934	746	563	441	477	–
Securitized funds	–	–	–	–	–	–	4,622	4,477	3,696	2,435	–
Other managed funds	6,982	4,732	3,680	2,652	2,944	330	279	–	–	–	–
Total	123,520	112,136	96,690	82,318	71,522	46,658	51,319	47,546	41,771	35,931	28,157

Certain amounts have been restated to conform with the current year's presentation.

Table 6 *Premiums and Deposits by Line of Business and Geographic Territory*

For the years ended December 31 (Canadian $ in millions)	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
General fund premiums by line of business											
Life and health insurance	5,284	5,552	3,953	3,758	3,743	3,089	2,836	2,541	2,295	2,050	1,869
Annuities and pensions	2,463	2,304	994	1,067	1,298	1,535	1,598	1,417	1,408	1,619	1,742
Reinsurance	768	816	749	797	653	569	554	498	401	331	322
Total	8,515	8,672	5,696	5,622	5,694	5,193	4,988	4,456	4,104	4,000	3,933
General fund premiums by geographic territory											
United States	3,652	3,498	2,276	2,202	2,181	2,152	2,241	2,373	2,161	2,190	2,163
Canada	2,540	3,347	2,292	2,294	2,549	2,142	1,963	1,548	1,459	1,418	1,084
International	2,323	1,825	1,120	1,121	964	806	685	438	367	280	211
Reinsurance[1]	–	–	–	–	–	–	–	–	–	–	322
Divested operations	–	2	8	5	–	93	99	97	117	112	153
Total	8,515	8,672	5,696	5,622	5,694	5,193	4,988	4,456	4,104	4,000	3,933

(1) Not split geographically prior to 1991

	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
Segregated fund deposits by geographic territory											
United States	12,650	9,031	6,837	5,376	3,365	931	670	385	214	126	114
Canada	1,681	1,347	1,730	1,418	757	323	671	488	204	118	111
International	446	331	279	232	169	113	78	57	37	32	30
Divested operations	–	–	–	–	–	37	171	162	161	168	249
Total	14,777	10,709	8,846	7,026	4,291	1,404	1,590	1,092	616	444	504

Certain amounts have been restated to conform with the current year's presentation.

Table 7 *Quarterly Information – Summary Statements of Operations*

For the three months ended (Canadian $ in millions)	12/31/00	9/30/00	6/30/00	3/31/00	12/31/99	9/30/99	6/30/99	3/31/99
Revenues								
Premium income	2,114	1,981	2,141	2,279	2,215	2,110	2,656	1,691
Investment income	1,056	1,120	1,098	1,076	1,304	1,023	1,018	1,024
Other revenue	338	337	321	291	276	261	253	225
Total revenue	3,508	3,438	3,560	3,646	3,795	3,394	3,927	2,940
Policy benefits and expenses								
Payments to policyholders and beneficiaries	1,734	1,931	1,875	2,114	1,767	1,650	1,640	1,551
Increase in actuarial liabilities	177	134	293	218	595	541	1,141	351
Policyholder dividends and experience rating refunds	254	200	222	183	209	200	182	147
General expenses and commissions	935	793	812	737	744	722	676	561
Interest expense	55	48	48	40	58	34	46	41
Premium taxes	25	24	24	23	20	23	20	21
Non-controlling interest in subsidiaries	(70)	(42)	(54)	15	18	(67)	(66)	1
Trust preferred securities issued by subsidiaries	16	16	15	16	15	14	18	15
Total policy benefits and expenses	3,126	3,104	3,235	3,346	3,426	3,117	3,657	2,688
Income before income taxes	382	334	325	300	369	277	270	252
Income taxes	(96)	(19)	(83)	(75)	(126)	(53)	(66)	(57)
Net income	286	315	242	225	243	224	204	195
Net loss attributed to:								
Participating policyholders (after demutualization)	–	–	(5)	(2)	(8)	–	–	–
Net income attributed to:								
Shareholders (after demutualization)	286	315	247	227	251	16	–	–
Mutual operations (prior to demutualization)	–	–	–	–	–	208	204	195
Adjusted shareholders' net income	286	315	247	227	251	224	204	195
Net income	286	315	242	225	243	224	204	195
Return on shareholders' equity[1] (annualized)	16.2%	18.6%	15.2%	14.2%	15.7%	14.2%	13.2%	12.8%
Return on assets (YTD) (annualized)	1.84%	1.81%	1.64%	1.59%	1.58%	1.51%	1.47%	1.46%
Capital as a per cent of liabilities	16.7%	16.4%	15.8%	15.9%	16.1%	16.0%	16.2%	16.6%

(1) Previously reported as return on surplus

Certain amounts have been restated to conform with the current year's presentation.

Responsibility for Financial Reporting

The accompanying consolidated financial statements of Manulife Financial Corporation are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. When alternative accounting methods exist, or when estimates and judgement are required, management has selected those amounts which present the Company's financial position and results of operations in a manner most appropriate to the circumstances.

Appropriate systems of internal control, policies and procedures have been maintained, consistent with reasonable cost, to ensure that financial information is both relevant and reliable. The systems of internal control are assessed on an ongoing basis by the Company's internal audit department.

The actuary appointed by the Board of Directors (the "Appointed Actuary") is responsible for ensuring that assumptions and methods used in the determination of actuarial and policy liabilities are appropriate to the circumstances and that such reserves will be adequate to meet the Company's future obligations under insurance and annuity contracts.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. These responsibilities are carried out primarily through an Audit Committee of unrelated directors appointed by the Board of Directors.

The Audit Committee meets periodically with management, the internal auditors, the external auditors and the Appointed Actuary to discuss internal control over the financial reporting process, auditing matters and financial reporting issues. The Audit Committee reviews the consolidated financial statements and recommends them to the Board of Directors for approval. The Audit Committee also recommends to the Board of Directors and Shareholders the appointment of external auditors and approval of their fees.

The consolidated financial statements have been audited by the Company's external auditors, Ernst & Young LLP, in accordance with auditing standards generally accepted in Canada. Ernst & Young LLP has full and free access to the Audit Committee.

Dominic D'Alessandro
President and Chief Executive Officer

Peter Rubenovitch
Executive Vice President and Chief Financial Officer

Toronto, Canada
February 17, 2000

Appointed Actuary's Report to the Shareholders and Directors of Manulife Financial Corporation

I have valued the policy liabilities of Manulife Financial Corporation for its Consolidated Balance Sheets as at December 31, 1999 and 1998 and their change in the Consolidated Statements of Operations for the years then ended in accordance with actuarial practice generally accepted in Canada, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations and the consolidated financial statements fairly present the results of the valuation.

Geoff I. Guy, F.C.I.A.
Executive Vice President and Appointed Actuary

Toronto, Canada
February 17, 2000

Auditors' Report to the Shareholders and Directors

We have audited the Consolidated Balance Sheets of Manulife Financial Corporation and the Consolidated Statements of Net Assets of its Segregated Funds as at December 31, 1999 and 1998 and the Consolidated Statements of Operations, Equity, Cash Flows and Changes in Net Assets of its Segregated Funds for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company and its Segregated Funds as at December 31, 1999 and 1998 and the results of the Company's operations and cash flows and the changes in the net assets of its Segregated Funds for the years then ended in accordance with accounting principles generally accepted in Canada including the accounting requirements of the Superintendent of Financial Institutions (Canada).

Ernst & Young LLP
Chartered Accountants

Toronto, Canada
February 17, 2000

Consolidated Balance Sheets

(Canadian $ in millions)	As at December 31	1999	1998
ASSETS	**Invested assets** (note 3)		
	Bonds	$ 30,853	$ 30,691
	Mortgages	6,867	7,702
	Stocks	4,832	4,042
	Real estate	3,179	2,992
	Policy loans	3,207	3,137
	Cash and short-term investments	3,047	1,329
	Other investments	1,180	499
	Total invested assets	$ 53,165	$ 50,392
	Other assets		
	Accrued investment income	$ 727	$ 732
	Outstanding premiums	357	313
	Future income taxes (note 5)	529	772
	Miscellaneous	1,930	893
	Total other assets	$ 3,543	$ 2,710
	Total assets	$ 56,708	$ 53,102
	Segregated fund net assets	$ 49,055	$ 38,200
LIABILITIES AND EQUITY	Actuarial liabilities (note 4)	$ 39,748	$ 38,738
	Benefits payable and provision for unreported claims	1,522	1,441
	Policyholder amounts on deposit	1,166	1,041
	Deferred realized net gains (note 3)	2,266	2,735
	Banking deposits	333	264
	Other liabilities	3,152	1,392
		$ 48,187	$ 45,611
	Subordinated debt (note 6)	582	627
	Non-controlling interest in subsidiaries	750	76
	Trust preferred securities issued by subsidiaries (note 7)	735	783
	Equity (note 8)		
	Participating policyholders' equity	61	–
	Shareholders' equity		
	Common shares (note 9)	628	–
	Shareholders' retained earnings	5,765	–
	Surplus	–	6,005
	Total equity	$ 6,454	$ 6,005
	Commitments and contingencies (note 13)		
	Total liabilities and equity	$ 56,708	$ 53,102
	Segregated fund net liabilities	$ 49,055	$ 38,200

Dominic D'Alessandro
President and
Chief Executive Officer

Arthur R. Sawchuk
Chairman of the
Board of Directors

Consolidated Statements of Operations

(Canadian $ in millions)

For the years ended December 31	1999	1998
Revenue		
Premium income	$ 8,672	$ 5,696
Investment income (note 3(b))	4,376	4,123
Other revenue	1,015	792
Total revenue	$ 14,063	$ 10,611
Policy benefits and expenses		
To policyholders and beneficiaries		
Death and disability benefits	$ 2,136	$ 2,331
Maturity and surrender benefits	2,064	1,986
Annuity payments	1,267	1,270
Net transfers to segregated funds	1,141	798
Increase in actuarial liabilities (note 4)	2,628	252
Policyholder dividends and experience rating refunds	738	604
General expenses	1,824	1,360
Commissions	886	758
Interest expense	179	158
Premium taxes	84	74
Non-controlling interest in subsidiaries	(114)	7
Trust preferred securities issued by subsidiaries	62	62
Total policy benefits and expenses	$ 12,895	$ 9,660
Income before income taxes	$ 1,168	$ 951
Income taxes (note 5)	(302)	(241)
Net income	$ 866	$ 710
Net loss attributed to:		
Participating policyholders (after demutualization)	$ (8)	$ –
Net income attributed to:		
Mutual operations (prior to demutualization)	$ 607	$ 710
Shareholders (after demutualization)	267	–
Adjusted shareholders' net income	$ 874	$ 710
Net income	$ 866	$ 710
Earnings per share (note 10)		

Consolidated Statements of Equity

(Canadian $ in millions) For the years ended December 31	Surplus	Participating Policyholders	Shareholders	1999	1998
Operating retained earnings					
Balance, January 1	$ 5,762	$ –	$ –	$ 5,762	$ 5,052
Conversion costs	(31)	–	–	(31)	–
Net income as a mutual operation	607	–	–	607	710
Balance, September 23, 1999 as restated on demutualization	$ 6,338	$ –	$ –	$ 6,338	$ 5,762
Transfers to participating policyholders' equity	(69)	69	–	–	–
Transfers to shareholders' equity	(5,575)	–	5,575	–	–
Cash distributions by Manufacturers Life to certain participating policyholders	(694)	–	–	(694)	–
Purchase and cancellation of common shares (note 9)	–	–	(120)	(120)	–
Net income (loss) as a stock company	–	(8)	267	259	–
Balance, December 31	$ –	$ 61	$ 5,722	$ 5,783	$ 5,762
Currency translation account					
Balance, January 1	$ 243	$ –	$ –	$ 243	$ 16
Change during the year as a mutual company	(116)	–	–	(116)	227
Transfer to shareholders' equity on demutualization	(127)	–	127	–	–
Change during the year as a stock company	–	–	(84)	(84)	–
Balance, December 31	$ –	$ –	$ 43	$ 43	$ 243
Retained earnings	$ –	$ 61	$ 5,765	$ 5,826	$ 6,005
Common shares					
Balance, January 1	$ –	$ –	$ –	$ –	$ –
Issue of common shares (note 9)	–	–	694	694	–
Initial public offering costs (note 9)	–	–	(58)	(58)	–
Purchase and cancellation of common shares (note 9)	–	–	(8)	(8)	–
Balance, December 31	$ –	$ –	$ 628	$ 628	$ –
Total equity	$ –	$ 61	$ 6,393	$ 6,454	$ 6,005

Consolidated Statements of Cash Flows

(Canadian $ in millions) For the years ended December 31	1999	1998
Operating activities		
Operating cash inflows		
Premiums and annuity considerations	$ 7,955	$ 5,822
Investment income received	3,530	3,418
Other revenue	1,015	792
Total operating cash inflows	$ 12,500	$ 10,032
Operating cash outflows		
Benefit payments	$ 5,334	$ 5,556
Insurance expenses and taxes (notes 5 and 6)	2,890	2,540
Net transfers to segregated funds	1,141	798
Dividends paid to policyholders	738	604
Change in other assets and liabilities	(502)	545
Total operating cash outflows	$ 9,601	$ 10,043
Cash provided by (used in) operating activities	$ 2,899	$ (11)
Investing activities		
Purchases and mortgage advances	$ (32,354)	$ (27,679)
Disposals and repayments	30,433	27,317
Cash used in investing activities	$ (1,921)	$ (362)
Financing activities		
Funds repaid	$ –	$ (29)
Borrowed funds	51	–
Increase in repurchase agreements and securities sold but not yet purchased	810	–
Issue of common shares (note 9)	694	–
Payments to certain policyholders and underwriters upon demutualization (note 8)	(735)	–
Purchase and cancellation of common shares (note 9)	(128)	–
Cash provided by (used in) financing activities	$ 692	$ (29)
Cash and short-term investments		
Increase (decrease) during the year	$ 1,670	$ (402)
Balance, January 1	1,140	1,542
Balance, December 31	$ 2,810	$ 1,140

Composition of cash and short-term investments

	1999	1998
Beginning of year		
Gross cash and short-term investments	$ 1,329	$ 1,842
Net payments in transit, included in other liabilities	(189)	(300)
Net cash and short-term investments, January 1	$ 1,140	$ 1,542
End of year		
Gross cash and short-term investments	$ 3,047	$ 1,329
Net payments in transit, included in other liabilities	(237)	(189)
Net cash and short-term investments, December 31	$ 2,810	$ 1,140

Segregated Funds
Consolidated Statements of Net Assets

(Canadian $ in millions)	As at December 31	1999	1998
	Investments, at market values		
	Bonds	$ 3,188	$ 3,909
	Mortgages	–	5
	Stocks	42,903	32,142
	Real estate	7	15
	Cash and short-term investments	2,948	2,101
	Accrued investment income	24	22
	Other assets (liabilities), net	(15)	6
	Total segregated fund net assets, December 31	$ 49,055	$ 38,200
	Composition of segregated fund net assets:		
	Held by Policyholders	$ 48,993	$ 38,055
	Held by the Company	62	145
	Total segregated fund net assets, December 31	$ 49,055	$ 38,200

Segregated Funds
Consolidated Statements of Changes in Net Assets

(Canadian $ in millions)	For the years ended December 31	1999	1998
	Additions		
	Deposits from policyholders	$ 10,709	$ 8,846
	Realized and unrealized investment gains	6,199	2,604
	Interest and dividends	1,773	1,161
	Net transfers from general fund	1,141	798
	Currency revaluation	(2,356)	1,968
	Total additions	$ 17,466	$ 15,377
	Deductions		
	Payments to policyholders	$ 5,982	$ 3,759
	Management and administrative fees	629	436
	Total deductions	$ 6,611	$ 4,195
	Net addition to segregated funds for the year	$ 10,855	$ 11,182
	Segregated fund net assets, January 1	38,200	27,018
	Segregated fund net assets, December 31	$ 49,055	$ 38,200

Notes to Consolidated Financial Statements

(Canadian $ in millions unless otherwise stated)

NOTE 1 | Nature of Operations and Significant Accounting Policies

Manulife Financial Corporation ("Manulife Financial," the "Company") is a publicly traded stock life insurance company and the insurance holding company of The Manufacturers Life Insurance Company ("Manufacturers Life") which was organized as a mutual life insurance company until September 23, 1999, on which date it demutualized (note 8). The Company provides a wide range of financial products and services, including individual life insurance, group life and health insurance, pension products, annuities and mutual funds to individual and group customers in Canada, the United States and Asia. The Company also offers reinsurance services, primarily life and accident and health reinsurance, and provides investment management services with respect to the Company's general fund assets, segregated fund assets and mutual funds and, in Canada, to institutional customers.

Manulife Financial is registered under the Insurance Companies Act (Canada) ("ICA"), which requires that financial statements be prepared in accordance with accounting principles generally accepted in Canada, including the requirements of the Superintendent of Financial Institutions (Canada) ("OSFI"), ("GAAP"). None of the accounting requirements of OSFI is an exception to accounting principles generally accepted in Canada.

The preparation of financial statements, in conformity with GAAP, requires that management makes estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimation processes are related to the determination of actuarial liabilities. Although some variability is inherent in these estimates, management believes that the amounts provided are adequate.

The significant accounting policies used in the preparation of these consolidated financial statements are summarized below:

a) Basis of consolidation

Manulife Financial consolidates the financial statements of all subsidiary companies and eliminates on consolidation all significant inter-company balances and transactions. The equity method is used to account for investments over which the Company exerts significant influence. Gains and losses on sales of these investments are included in income when realized, while expected losses on other than temporary impairments are recognized immediately.

b) Invested assets

Under GAAP for life insurance companies, the invested assets held by the Company are accounted for through a variety of methods. These are summarized as follows:

	Carrying value	Recognition of realized gains and losses on normal business activity	Recognition of impairment
BONDS	At amortized cost less an allowance for specific losses.	Deferred and brought into income over the lesser of 20 years or the remaining term to maturity of the bond sold.	Impairment is recognized on a specific bond when there is no longer reasonable assurance as to the timely collection of the full amount of principal and interest. In such cases, the bond is written down to its net realizable value and the charge is recorded in income in the period the impairment is recognized.
MORTGAGES AND LOANS	At amortized cost less repayments and an allowance for specific losses.	Deferred and brought into income over the lesser of 20 years or the remaining term to maturity of the mortgage or loan sold.	Impairment is recognized on a specific mortgage or loan when there is no longer reasonable assurance as to the timely collection of the full amount of principal and interest. Such impaired mortgages and loans are carried at their estimated realizable value, determined for each asset by discounting the expected future cash flows at the original interest rate inherent in the asset. When the amounts and timing of future cash flows cannot be estimated with reasonable reliability, estimated realizable amounts are measured at either the fair value of any security underlying the mortgage or loan, net of expected costs of realization and any amounts legally required to be paid to borrowers, or at observable market prices for the mortgages or loans. Mortgages and loans are classified as impaired whenever payments are 90 days or more in arrears. At the time of foreclosure, mortgages are written down to net realizable value. Declines in the net realizable value of foreclosed properties are charged to income immediately.
STOCKS	On a moving average market basis whereby carrying values are adjusted towards market value at 15% per annum.	Deferred and brought into income at the rate of 15% of unamortized deferred realized gains and losses each year.	Specific stocks are written down to market value if an impairment in the value of the entire stock portfolio (determined net of deferred realized gains) is considered to be other than temporary.
REAL ESTATE	On a moving average market basis whereby carrying values are adjusted towards market value at 10% per annum.	Deferred and brought into income at the rate of 10% of unamortized deferred realized gains and losses each year.	Specific properties are written down to market value if an impairment in the value of the entire real estate portfolio (determined net of deferred realized gains) is considered to be other than temporary.
POLICY LOANS	At their unpaid balance.	Not applicable. Fully secured by the cash surrender value of the policies on which the loans are made.	Fully secured by the cash surrender value of the policies on which the loans are made.

On disposition of an impaired asset, the allowance is written off against the related assets. Once established, an allowance against temporary impairment of bonds or mortgages is reversed only if the conditions that caused the impairment no longer exist.

In addition to specific allowances, the Company provides for potential future impairments by reducing investment yields assumed in the calculation of actuarial liabilities.

c) Actuarial liabilities

Actuarial liabilities represent the amount which, together with estimated future premiums and net investment income, will be sufficient to pay estimated future policy benefits, policyholder dividends, taxes (other than income taxes) and expenses on policies inforce. The Company's Appointed Actuary is responsible for determining the amount of actuarial liabilities that must be set aside each year to ensure that sufficient funds will be available in the future to meet these obligations. The valuation methods employed by the Appointed Actuary are based on standards established by the Canadian Institute of Actuaries. In accordance with actuarial practices generally accepted in Canada, liabilities have been determined using the policy premium method and the cash flow valuation method.

d) Other investments

Included in other investments are investments in oil and gas properties, equipment leases, limited partnerships, commercial loans, investments in segregated and mutual funds and derivative assets.

e) Miscellaneous assets

Included in miscellaneous assets are amounts due from reinsurers and capital assets. The latter are carried at cost less accumulated amortization computed on a straight-line basis over their estimated useful lives, which vary from two to ten years.

f) Segregated funds

The Company manages a number of segregated funds on behalf of policyholders. The investment returns on these funds accrue directly to the policyholders, with the Company assuming no risk. Consequently, these funds are segregated and presented separately from the general fund of the Company. Income earned from fund management fees is included in other revenue in the general fund. Investments held in segregated funds are carried at market value.

The Company also provides minimum guarantees on individual variable life and annuity contracts. These include minimum death benefit guarantees, minimum maturity value guarantees and minimum income benefit guarantees. The liability associated with these minimum guarantees is recorded in actuarial liabilities in the general fund of the Company.

g) Translation of foreign currencies

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates in effect at the Consolidated Balance Sheet dates. Revenue and expenses are translated at the average exchange rates prevailing during the year. Unrealized foreign currency translation gains and losses on investments in self-sustaining operations are recorded in equity. Translation gains and losses on disposition of investments in self-sustaining operations are included in income.

h) Income taxes

The Company provides for income taxes using the liability method of tax allocation. Under this method, the provision for income taxes is calculated based on income tax laws and income tax rates in effect as at the Consolidated Balance Sheet dates. The income tax provision is comprised of two components: current income taxes and future income taxes. Current income taxes are amounts expected to be payable or recoverable as a result of operations in the current year. Future income taxes arise from changes during the year in cumulative temporary differences between the accounting carrying value of assets and liabilities and their respective tax bases. The future income tax asset is recognized to the extent that future realization of the tax benefit is more likely than not, with a valuation allowance for the excess.

i) Pensions and other post-employment benefits

The Company maintains a number of pension plans for its eligible employees and agents. Assets for each plan are held by independent trustees and are carried at market-related values.

The defined contribution plans were established in 1998 and provide pension benefits based on the accumulated contributions and fund earnings. The cost of defined contribution benefits is the required contribution provided by the Company in exchange for the services of employees rendered during the period.

The defined benefit plans provide pension benefits based on length of service and final average earnings. The cost of defined benefit pension benefits is recognized using the projected benefit method pro-rated on services. Experience gains and losses are amortized to income over the estimated average remaining service lives of plan members.

The Company also provides supplementary pension, health, dental and life insurance benefits to qualifying employees upon retirement. The estimated present value of these benefits is charged to earnings over the employees' years of service to their date of full entitlement.

j) Derivatives

The Company uses derivatives to manage exposures to foreign currency, interest rate and other market risks arising from its on-balance sheet financial instruments. These derivatives are designated and effective as hedges, as there is a high correlation between changes in market value of the derivative and the underlying hedged item at inception and over the life of the hedge. Realized and unrealized gains and losses on these derivatives are accounted for on the same bases as the underlying assets and liabilities. Realized and unrealized gains and losses on derivative transactions established as hedges but no longer considered hedges are included in income from the date at which they are no longer considered to be hedges. Derivative income and expenses related to invested assets and financial liabilities are included in investment income and interest expense, respectively, in the Consolidated Statements of Operations. Cash flows relating to derivatives associated with invested assets and financial liabilities are included in the Consolidated Statements of Cash Flows on a basis consistent with the cash flows from the underlying invested assets and financial liabilities. Derivative assets and liabilities are included in other investments and other liabilities, respectively, and deferred realized net gains are presented as such in the Consolidated Balance Sheets.

k) Goodwill

Goodwill represents the excess of the cost of businesses acquired over fair values assigned to the related identifiable net assets and is amortized on a straight-line basis over the expected benefit periods of up to 20 years. Unamortized goodwill is reviewed periodically for impairment by considering factors such as returns of the related business, taking into account the risk associated with the investment. When goodwill is determined to be impaired, a charge is taken to income immediately.

l) Premium income and related expenses

Gross premiums for all types of insurance contracts, and contracts with limited mortality or morbidity risk, are generally recognized as revenue when due. When premiums are recognized, actuarial liabilities are computed, with the result that benefits and expenses are matched with such revenue.

NOTE 2 | Changes in Accounting Policies

a) Income taxes

In December 1997, The Canadian Institute of Chartered Accountants ("CICA") issued Handbook Section 3465, "Income Taxes," effective for fiscal years commencing January 1, 2000. This standard requires the use of the liability method of accounting for income taxes and changes the focus from income statement timing differences to balance sheet temporary differences. The Company adopted the recommendations of this standard effective for its fiscal year commencing January 1, 1999. The impact of this change was not material to these consolidated financial statements.

b) Pensions and other post-employment benefits

In March 1999, The CICA issued Handbook Section 3461, "Employee Future Benefits," effective for fiscal years commencing January 1, 2000. This standard requires employee future benefits to be accounted for on an accrual basis and pension obligations to be discounted using a market rate of interest. The Company adopted the recommendations of this standard effective for its fiscal year commencing January 1, 1999. The impact of this change was not material to these consolidated financial statements.

NOTE 3 | Invested Assets and Income

a) Invested assets

As at December 31 1999	Carrying value	Fair value	Unrealized gains	Unrealized losses	Deferred realized net gains (losses)	Total realized and unrealized gains
Bonds (fixed maturity)						
Canadian government	$ 7,182	$ 7,499	$ 470	$ (153)	$ 239	$ 556
Foreign governments	5,076	4,983	59	(152)	169	76
Corporate	16,896	16,676	401	(621)	562	342
Mortgage-backed securities	1,699	1,652	10	(57)	56	9
Mortgages	6,867	6,937	200	(130)	50	120
Stocks	4,832	6,642	2,022	(212)	1,126	2,936
Real estate	3,179	3,468	342	(53)	66	355
Policy loans	3,207	3,207	–	–	–	–
Cash and short-term investments	3,047	3,047	–	–	–	–
Other investments	1,180	1,196	37	(21)	(2)	14
Total invested assets	$ 53,165	$ 55,307	$ 3,541	$ (1,399)	$ 2,266	$ 4,408
1998						
Bonds (fixed maturity)						
Canadian government	$ 6,951	$ 8,142	$ 1,194	$ (3)	$ 326	$ 1,517
Foreign governments	4,725	5,068	349	(6)	222	565
Corporate	17,244	18,539	1,541	(246)	809	2,104
Mortgage-backed securities	1,771	1,773	39	(37)	83	85
Mortgages	7,702	8,223	547	(26)	45	566
Stocks	4,042	5,171	1,336	(207)	1,202	2,331
Real estate	2,992	3,087	209	(114)	45	140
Policy loans	3,137	3,137	–	–	–	–
Cash and short-term investments	1,329	1,329	–	–	–	–
Other investments	499	531	40	(8)	3	35
Total invested assets	$ 50,392	$ 55,000	$ 5,255	$ (647)	$ 2,735	$ 7,343

Fair values are determined with reference to quoted market prices where available. Fair values of mortgages reflect changes in interest rates which have occurred since the mortgages were originated and changes in the credit-worthiness of individual borrowers. For fixed-rate mortgages, fair value is determined by discounting the expected future cash flows at market interest rates for mortgages with similar credit risks. Fair values of real estate are determined by a combination of internal and external appraisals utilizing expected net cash flows discounted at market interest rates. Fair values of policy loans, cash and short-term investments and other investments approximate their carrying values due to their short-term nature.

Foreclosed properties of $92 are included in real estate at December 31, 1999 (1998 – $196).

The following table presents the carrying value and fair value of bonds, based on period to maturity:

Bonds

As at December 31	1999 Carrying value	1999 Fair value	1998 Carrying value	1998 Fair value
Maturity				
Due in one year or less	$ 2,100	$ 2,110	$ 1,515	$ 1,530
Due after one year through five years	8,352	8,257	7,712	7,884
Due after five years through ten years	5,617	5,492	6,420	6,704
Due after ten years	13,085	13,299	13,273	15,631
Mortgage-backed securities	1,699	1,652	1,771	1,773
Total	$ 30,853	$ 30,810	$ 30,691	$ 33,522

The following table presents the carrying value and fair value of mortgages, by type of property:

Mortgages

As at December 31	1999 Carrying value	1999 Fair value	1998 Carrying value	1998 Fair value
Residential	$ 1,369	$ 1,384	$ 1,600	$ 1,714
Office	1,594	1,610	1,719	1,849
Retail	2,036	2,080	2,344	2,490
Industrial	1,618	1,606	1,804	1,913
Other	250	257	235	257
Total	$ 6,867	$ 6,937	$ 7,702	$ 8,223

The carrying value of government-insured loans was 4.7% of the total carrying value of the mortgage portfolio as at December 31, 1999 (1998 – 4.8%) and the value of privately-insured mortgages was 0.03% of the total mortgage portfolio as at December 31, 1999 (1998 – 0.1%).

b) Investment income

For the years ended December 31	Gross investment income	Provision for impairment, net (note 3(e))	Amortization of realized and unrealized gains (losses)	Total	Yield (%)
1999					
Bonds	$ 2,193	$ (101)	$ 191	$ 2,283	7.97
Mortgages	621	24	11	656	9.43
Stocks	122	–	524	646	23.31
Real estate	230	21	38	289	10.05
Policy loans	274	–	–	274	8.69
Cash and short-term investments	84	–	–	84	3.34
Other investments	123	(2)	7	128	N/A
Currency	–	–	16	16	N/A
Total	$ 3,647	$ (58)	$ 787	$ 4,376	9.02
1998					
Bonds	$ 2,164	$ (107)	$ 231	$ 2,288	8.09
Mortgages	662	23	10	695	9.39
Stocks	90	–	386	476	19.76
Real estate	199	23	13	235	8.57
Policy loans	255	–	–	255	8.57
Cash and short-term investments	88	–	–	88	3.94
Other investments	77	–	(7)	70	N/A
Currency	–	–	16	16	N/A
Total	$ 3,535	$ (61)	$ 649	$ 4,123	8.77

Yields are based on total investment income divided by the average carrying value of assets plus accrued income less net deferred gains.

c) Securities lending

The Company engages in securities lending to generate additional income. Certain securities from its portfolio are loaned to other institutions for periods of time. Collateral, which exceeds the market value of the loaned securities, is lodged by the borrower with the Company and retained by the Company until the underlying security has been returned to the Company. The market value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market value fluctuates. As at December 31, 1999, the Company had loaned securities (which are included in invested assets) with a carrying value and market value of approximately $1,423 and $1,410, respectively.

d) Mortgage securitization

The Company has sold for cash, with limited recourse, commercial mortgages. The maximum recourse on these mortgages is less than 10% of the proceeds. When the mortgages are sold, they are removed from the Company's balance sheet and the amortized gains are recognized in net investment income. As at December 31, 1999, outstanding balances of sold mortgages with limited recourse was $591 (1998 – $296).

e) Credit risk

Credit risk is the risk that a party to a financial instrument, such as a mortgage borrower, will fail to fully honour its financial obligations to the Company. Credit risks are primarily associated with investment, derivative and reinsurance counterparties.

The Company has provided for credit risks by establishing specific allowances against the carrying value of the impaired assets in the Consolidated Balance Sheets. In addition to specific allowances, the Company provides for potential future impairments by reducing investment yields assumed in the calculation of actuarial liabilities (note 4(c)). The carrying value of impaired assets was as follows:

As at December 31 1999	Gross amount	Allowance	Carrying value
Mortgages	$ 133	$ 49	$ 84
Other impaired assets	195	83	112
Total	$ 328	$ 132	$ 196
1998			
Mortgages	$ 241	$ 88	$ 153
Other impaired assets	138	89	49
Total	$ 379	$ 177	$ 202

The changes during the year in respect of the specific allowance for impairment were as follows:

Specific allowance for impairment	1999	1998
Balance, January 1	$ 177	$ 101
Provisions during the year	58	61
Write-offs, net of recoveries	(103)	15
Balance, December 31	$ 132	$ 177

In addition to specific allowances for existing impairments, actuarial liabilities include an allowance for future impairments. As at December 31, 1999, the provision for future credit losses included in actuarial liabilities was $1,207 (1998 – $1,102).

Concentrations of credit risk

The Company's exposure to credit risk is managed through risk management policies and procedures with emphasis on the quality of the investment portfolio together with maintenance of issuer, industry and geographic diversification standards.

At December 31, 1999, 91% of bonds (1998 – 93%) were rated at investment grade "BBB" or higher, and 82% (1998 – 83%) were rated "A" or higher. Government bonds represented 40% (1998 – 39%) of the bond portfolio. The Company's highest exposure to a single non-government issuer was $678 (1998 – $707). Mortgages and real estate are diversified geographically and by property type. Ontario, Canada was the largest concentration of mortgages and real estate, with $3,320 (1998 – $3,557) of the total portfolio. Income-producing commercial office properties were the largest concentration of real estate with $2,108 (1998 – $2,031) of the real estate portfolio.

The Company's exposure to loss on derivatives is limited to the extent that default by counterparties to these contracts results in the loss of any gains that may have accrued. All contracts are held with counterparties rated "A" or higher, with 86% as at December 31, 1999 (1998 – 98%) of the exposed amount being with counterparties rated "AA" or higher. The largest single counterparty exposure at December 31, 1999 was $39 (1998 – $44).

NOTE 4 | Actuarial Liabilities

a) Composition

Actuarial liabilities represent the amount which, together with estimated future premiums and net investment income, will be sufficient to pay estimated future benefits, policyholder dividends, taxes (other than income taxes) and expenses on policies inforce. The composition of actuarial liabilities by line of business and geographic territory was as follows:

	Individual life insurance				
As at December 31 1999	Participating	Non-participating	Annuities and pensions	Other insurance liabilities	Total
Canada	$ 2,322	$ 1,437	$ 11,245	$ 1,590	$ 16,594
United States	9,836	2,720	6,280	938	19,774
International	2,016	635	707	22	3,380
Total	$ 14,174	$ 4,792	$ 18,232	$ 2,550	$ 39,748
1998					
Canada	$ 2,077	$ 1,130	$ 11,612	$ 1,060	$ 15,879
United States	9,652	2,945	6,696	884	20,177
International	1,881	33	747	21	2,682
Total	$ 13,610	$ 4,108	$ 19,055	$ 1,965	$ 38,738

Upon demutualization, Manufacturers Life was required, under the ICA, to maintain two separate accounts within its general fund: one for its participating policies and one for its non-participating policies. For participating policies inforce as at September 23, 1999, separate sub-accounts were established within the participating account. These sub-accounts permit this participating business to be operated as separate "closed blocks" of business.

As at December 31, 1999, 76% of actuarial liabilities related to the participating policyholders' account are included in the closed blocks.

b) Assets backing liabilities and equity

The Company has established a target invested asset portfolio mix which takes into account the risk attributes of the liabilities supported by the assets, expectations of market performance, and a generally conservative investment philosophy. Assets are segmented and matched to liabilities with similar underlying characteristics by product line and major currency. Liabilities with rate and term guarantees, such as annuities and pensions, are predominantly backed by fixed-rate instruments such as bonds and commercial and mortgage loans. Insurance products, such as participating whole life insurance, are backed by a broader range of asset classes. The Company's equity is primarily invested in North American stocks, bonds and real estate and international securities.

Changes in the fair value of assets backing actuarial liabilities would have a limited impact on the Company's equity as it would be offset by a corresponding change in the fair value of the liabilities. The fair value of assets backing actuarial liabilities at December 31, 1999 was estimated at $40,631 (1998 – $42,100).

A change in the fair value of assets supporting capital and other liabilities results in a corresponding change in equity when recognized, offset by changes in related liabilities when recognized. The fair value of assets backing capital and other liabilities as at December 31, 1999 was estimated at $18,218 (1998 – $15,600).

The carrying value of total assets supporting actuarial liabilities, other liabilities and capital and equity was as follows:

As at December 31	Individual life insurance					
	Participating	Non-participating	Annuities and pensions	Other	Capital	Total
1999						
Assets						
Bonds	$ 6,448	$ 2,462	$ 12,934	$ 6,546	$ 2,463	$ 30,853
Mortgages	941	260	3,845	1,511	310	6,867
Stocks	1,865	182	71	688	2,026	4,832
Real estate	1,088	41	37	349	1,664	3,179
Other	3,832	1,847	1,345	2,645	1,308	10,977
Total	$ 14,174	$ 4,792	$ 18,232	$ 11,739	$ 7,771	$ 56,708
1998						
Assets						
Bonds	$ 6,133	$ 2,749	$ 12,964	$ 6,007	$ 2,838	$ 30,691
Mortgages	916	386	4,537	1,461	402	7,702
Stocks	1,574	113	55	668	1,632	4,042
Real estate	990	50	38	274	1,640	2,992
Other	3,997	810	1,461	504	903	7,675
Total	$ 13,610	$ 4,108	$ 19,055	$ 8,914	$ 7,415	$ 53,102

Other includes insurance and non-insurance liabilities and non-controlling interest in subsidiaries. Capital represents total equity, subordinated debt and trust preferred securities issued by subsidiaries.

As at December 31, 1999, 76% of assets related to the participating policyholders' account are included in the closed blocks.

The net deferred realized gains taken into account in the computation of actuarial liabilities as at December 31, 1999 were $1,695 (1998 – $2,206).

c) Significant reserve assumptions

The preparation of financial statements involves the use of estimates and assumptions; however, actual results may differ from those estimates. The most significant estimation processes for insurance companies are related to the determination of actuarial liabilities.

Actuarial liabilities have two major components, a best estimate and a provision for adverse deviation. In conjunction with prudent business practices to manage both business and investment risks, the selection and monitoring of appropriate assumptions is designed to minimize the extent to which the Company is financially exposed to measurement uncertainty.

Best estimate reserve assumptions

In the computation of actuarial liabilities, best estimate reserve assumptions are made. Assumptions are made for the lifetime of the policies and include assumptions with respect to mortality and morbidity, investment returns, rates of policy termination, operating expenses and certain taxes. Actuarial assumptions may be subject to change in the future. Actual experience is monitored regularly against the assumptions to ensure that the assumptions remain appropriate. Assumptions are discussed in more detail in the following table.

	Nature of factor and assumption methodology	Risk management and sensitivity to change
MORTALITY AND MORBIDITY	Mortality relates to the occurrence of death. Mortality assumptions are based on past and emerging Company and industry experience. Assumptions are differentiated by sex, underwriting class and policy type. Morbidity relates to the occurrence of accidents and sickness. Morbidity assumptions are based on Company and industry experience.	The Company establishes appropriate underwriting standards to determine the insurability of applicants. Claim trends are monitored on an ongoing basis. Exposure to large claims is managed by establishing policy retention limits which vary by market and geographic location. Policies in excess of the limits are reinsured with other companies. The maximum exposure on any one life policy as at December 31, 1999 was $22 (1998 – $23). In addition, the Company carries coverage that insures against a catastrophic event that could entail aggregate claims in excess of $30 but less than $150 as at December 31, 1999 and 1998. Mortality is monitored monthly and recent experience has been favourable when compared to the Company's assumptions. Morbidity is monitored monthly and recent experience has been consistent with the Company's assumptions.
INVESTMENT RETURN	The Company matches assets and liabilities by business segment, using investment objectives that are appropriate for each line of business. The projected cash flows from these assets are combined with future reinvestment rates derived from the current economic outlook and the Company's investment policy in order to determine expected rates of return on these assets for all future years. Investment return assumptions include expected future asset defaults. Asset defaults are projected based on both past Company and industry experience and specific reviews of the current investment portfolio.	The Company's policy of closely matching cash flows on the assets with those for the corresponding liabilities reduces the Company's exposure to future changes in interest rates. Derivative instruments are used where necessary when there is a lack of suitable permanent investments to minimize loss exposure to interest rate changes. The valuation interest rate assumes a declining reinvestment rate in order to incorporate reinvestment risk. For the Company's annuity business, an immediate and parallel decrease in interest rates of 1% across all maturities in Canada and the United States would decrease net income and equity by $4 as at December 31, 1999 (1998 – increase of $5). The exposure to asset default is managed by policies and procedures which limit concentrations by issuer, connections, rating, sector and geographic region. Recent mortgage default experience has continued to be favourable when compared to the Company's assumptions. Recent bond default experience has been consistent with the Company's assumptions.
POLICY TERMINATIONS	Lapse relates to the termination of policies due to non-payment of premiums. Surrenders relate to the voluntary termination of policies by policyholders. Policy termination assumptions are based on the Company's experience adjusted for expected future conditions. Assumptions reflect differences in geographic markets and lapse patterns for different types of contracts.	The Company designs its products in order to minimize financial exposure to lapse and surrender risk. In addition, the Company monitors lapse and surrender experience monthly. Generally, recent lapse rates have been lower than expected when compared to assumptions used in the computation of actuarial liabilities, with higher surrenders experienced on certain pension and deferred annuity business.

In addition to the above, assumptions are made for expenses and taxes (other than income taxes). Policy maintenance expenses are derived from the Company's internal cost studies, projected into the future with an allowance for inflation. Explicit assumptions are made for future premium taxes and other non-income related taxes.

Provision for adverse deviation

The basic assumptions made in establishing actuarial liabilities are best estimates for a range of possible outcomes. To recognize the uncertainty in establishing these best estimate reserve assumptions, to allow for possible deterioration in experience and to provide greater comfort that the reserves are adequate to pay future benefits, the Appointed Actuary is required to include a margin in each assumption.

The impact of these margins is to increase actuarial liabilities and decrease the income that would be recognized at inception of the policy. Minimum conditions are prescribed by the Canadian Institute of Actuaries for determining margins related to interest risk. For other risks which are not specifically addressed by the standard, a range is defined as 5% to 20% of the expected experience assumption. The Company uses assumptions at the conservative end of the range, taking into account the risk profiles of the business.

d) Risk management

In addition to risks related to reserve assumptions, the Company is also exposed to the following risks:

Foreign currency risk

The Company's strategy of matching the currency of its assets with the currency of the liabilities these assets support results in minimal financial exposure related to foreign currency fluctuations on assets backing actuarial liabilities.

The Company also generally matches the currency of its equity with the currency of its liabilities except for approximately $650 at December 31, 1999 (1998 – $600) which was invested in a diversified basket of international currencies. Aligning the currency mix reduces the sensitivity of the Company's capital ratios to exchange rate fluctuations.

As at December 31, 1999, assets exceeded liabilities denominated in foreign currencies by approximately $3,900 (1998 – $3,300), of which $3,100 at December 31, 1999 (1998 – $2,900) related to the United States dollar. The impact of a 100 basis point increase in the Canadian dollar relative to the United States dollar would be a $10 decrease in net income for the year ended December 31, 1999 (1998 – $8) and a $56 decrease in equity as at December 31, 1999 (1998 – $49).

Liquidity risk

Liquidity risk is the risk that the Company will not have access to sufficient funds to meet its liabilities as they become due. Certain of the Company's policies have features that allow them to be terminated at short notice, creating a potential liquidity exposure. In the normal course of business, the Company matches the maturity of invested assets to the maturity of actuarial liabilities.

The Company had available liquidity, net of policy cash values that can be surrendered at short notice, of $21,660 as at December 31, 1999 (1998 – $22,876).

Reinsurance risk
In the normal course of business, the Company limits the amount of loss on any one policy by reinsuring certain levels of risk with other insurers. In addition, the Company accepts reinsurance from other reinsurers. Reinsurance ceded does not discharge the Company's liability as the primary insurer. Failure of reinsurers to honour their obligations could result in losses to the Company; consequently, allowances are established for amounts deemed uncollectible. In order to minimize losses from reinsurer insolvency, the Company monitors the concentration of credit risk both geographically and with any one reinsurer. In addition, the Company selects reinsurers with high credit ratings.

As a result of ceded reinsurance, actuarial liabilities have been reduced by $1,553 at December 31, 1999 (1998 – $1,433).

The effect of reinsurance on premium income was as follows:

For the years ended December 31	1999	1998
Direct premium income	$ 7,410	$ 5,546
Reinsurance assumed	1,780	874
Reinsurance ceded	(518)	(724)
Total premium income	$ 8,672	$ 5,696

e) Change in actuarial liabilities
Change in actuarial liabilities during the year was caused by the following business activities and changes in actuarial estimates:

For the years ended December 31	1999	1998
Balance, January 1	$ 38,738	$ 37,227
Normal change		
New policies	1,705	769
Inforce	160	(541)
Changes in methods and assumptions	(3)	24
Changes due to assumption reinsurance agreement	766	–
Currency impact	(1,618)	1,259
Balance, December 31	$ 39,748	$ 38,738

During the year reserves were released to reflect improved mortality in several business units, and strengthened to reflect methodology and professional standard changes for universal life policies, increased provisions related to certain savings products, and an updated assessment of long-term credit risks for certain asset classes. The overall impact of these, and other less material changes, was a reserve release of $3.

Provisions for unreported claims are included with policy benefits in the course of settlement on the Consolidated Balance Sheets.

NOTE 5 | Income Taxes

The effective income tax rate for the consolidated provision for income taxes varies from the income taxes computed at the Canadian statutory tax rate of 43% at December 31, 1999 (1998 – 43%) for the following reasons:

Reconciliation of income tax expense

For the years ended December 31	1999	1998
Income tax at Canadian statutory rates	$ 502	$ 409
Increase (decrease) in tax due to:		
Tax-exempt investment income	(69)	(71)
Differences in tax rates in foreign jurisdictions	(110)	(69)
Recognition of tax benefit from prior years	(27)	(33)
Other	6	5
Income taxes	$ 302	$ 241

Components of income tax expense included in the Consolidated Statements of Operations are:

For the years ended December 31	1999	1998
Canadian income tax expense (benefit):		
Current taxes	$ 62	$ 67
Future taxes	(32)	49
	$ 30	$ 116
Foreign income tax expense (benefit):		
Current taxes	$ (34)	$ 79
Future taxes	306	46
	$ 272	$ 125
Income tax expense	$ 302	$ 241

The amount of income taxes paid in cash during the year ended December 31, 1999 was $61 (1998 – $170).

Undistributed earnings of non-Canadian subsidiaries may be taxed upon repatriation to Canada. The Company has recognized a future tax liability on these undistributed earnings to the extent that management expects it will be incurred on earnings repatriated in the foreseeable future.

The following table presents future income taxes in total, and the principal components:

As at December 31	1999	1998
Future income tax asset:		
Actuarial liabilities	$ 604	$ 849
Gains on sale of invested assets	421	516
Other	173	38
	$ 1,198	$ 1,403
Valuation allowance	(245)	(272)
Future income tax asset	$ 953	$ 1,131
Future income tax liability:		
Real estate	$ (232)	$ (164)
Securities	(129)	(135)
Other	(63)	(60)
Future income tax liability	$ (424)	$ (359)
Net future income tax asset	$ 529	$ 772

As at December 31, 1999, Manulife Financial and its subsidiaries have approximately $401 (1998 – $365) of tax loss carryforwards available, none of which expire in 2000. These tax loss carryforwards can be applied against future profits of the companies that have incurred those losses.

NOTE 6 | Subordinated Debt

As at December 31	1999	1998
7⅞% U.S. dollar	$ 361	$ 385
8¼% U.K. pound	221	242
Total	$ 582	$ 627
Fair value	$ 588	$ 690

The fair value of subordinated debt is determined by reference to current market prices. Both issues form part of the Company's regulatory capital. To reduce exposure to foreign currency fluctuations, derivatives are used to convert the U.K. pound debt into Canadian and U.S. dollar liabilities.

The cash amount of interest paid during the year ended December 31, 1999 was $48 (1998 – $48).

a) 7⅞% U.S. dollar subordinated notes

During 1995, the Company issued U.S. $250 ($341) in 7⅞% subordinated notes due April 15, 2005. This debt was issued as a private placement under Rule 144A of the Securities Act (United States).

b) 8¼% U.K. pound subordinated notes

On January 1, 1996, on amalgamation with North American Life Assurance Company, the Company assumed £100 ($202) in 8¼% subordinated notes redeemable on November 17, 2003. Concurrently, £5 ($10) of debt, which was held by the Company, was extinguished.

NOTE 7 | Trust Preferred Securities Issued by Subsidiaries

Capital Trust Pass-through Securities Units of $735 (U.S. $500) were issued by subsidiaries of Manulife Financial in January 1997, maturing February 1, 2027. Using exchange rates at the date of issue, net proceeds from the issue were $672.

Each unit consists of one 8.25% Trust Preferred Security, issued by the trust subsidiary, and one 0.125% preferred purchase contract, issued by Manufacturers Investment Corporation ("MIC"). The trust subsidiary's only asset is an investment in notes issued by MIC. Holders of each purchase contract may be required to purchase 20 non-cumulative perpetual preferred shares, Series A of MIC, at U.S. $50 per share. Holders may satisfy this purchase by delivering the Trust Preferred Securities to MIC in exchange for the perpetual preferred shares.

The Securities Units were issued as a private placement under Rule 144A of the Securities Act (United States).

From the Company's perspective, the issue is equivalent to a combination of 8.25% subordinated debt maturing February 1, 2027, and an option exercisable by the Company, requiring contract holders to purchase an equivalent amount of perpetual preferred stock in MIC. The securities form part of the Company's regulatory capital.

NOTE 8 | Demutualization

Manufacturers Life was organized as a mutual life insurance company until September 23, 1999. On that date, Manufacturers Life converted to a stock life insurance company with common shares following approval of its plan to demutualize by policyholders and the Minister of Finance (Canada). Manulife Financial Corporation ("Manulife Financial," the "Company") was incorporated on April 26, 1999 under the Insurance Companies Act (Canada) and on September 23, 1999, became an insurance holding company owning all of the outstanding shares of Manufacturers Life. To effect the conversion, the Company issued a total of 501 million common shares, of which 38 million were issued to certain underwriters at $18.00 per share and 100 million common shares were sold in a secondary offering by a custodian on behalf of certain policyholders who elected, or were otherwise required, to sell their common shares pursuant to the Plan of Demutualization. The remaining 363 million common shares were retained by policyholders and given a total nominal value of one dollar in the Company's records. Proceeds from the shares issued to the underwriters amounted to $694 and were used to fund payments by Manufacturers Life, in lieu of common shares, to certain policyholders in exchange for their ownership rights. All costs of services provided by outside vendors in respect of the conversion, amounting to $31 net of taxes, were treated as a capital transaction and, upon demutualization, were deducted from the surplus of Manufacturers Life. All costs of the secondary offering, amounting to $58 net of taxes, were treated as a capital transaction and deducted from the stated capital of the Company. All costs were paid from the general fund of the Company.

The assets, liabilities, equity and results of operations of Manufacturers Life have been presented in the consolidated financial statements of Manulife Financial Corporation on a continuity of interest basis.

NOTE 9 | Share Capital

The authorized capital of the Company consists of:
a) an unlimited number of common shares without nominal or par value; and
b) an unlimited number of Class A and Class B preferred shares without nominal or par value, issuable in series.

On October 7, 1999, the Company announced the establishment of a normal course issuer bid program on The Toronto Stock Exchange (the "Exchange") authorizing the Company to purchase up to 25 million common shares, representing approximately 5% of common shares issued and outstanding at the time. The normal course issuer bid, accepted by the Exchange, commenced on October 12, 1999 and will expire on October 11, 2000 unless the maximum number of shares is purchased before then or the Company provides notice of early termination. Transactions will be executed on the Exchange at the prevailing market price in amounts and at times determined by the Company. Any shares purchased as part of the bid will be cancelled.

In 1999, the Company purchased and subsequently cancelled 7 million of its common shares at a total cost of $128. Common shares outstanding were reduced by $8 and retained earnings were reduced by $120.

As at December 31, 1999, the Company had 494 million common shares issued and outstanding.

Common shares	Number of shares (in millions)	Amount
Issued in public offering (note 8)	38	$ 694
Less: issue costs, net of taxes (note 8)		(58)
		$ 636
Issued to policyholders (note 8)	463	–
Normal course issuer bid – purchased for cancellation	(7)	(8)
	494	$ 628

NOTE 10 | Earnings Per Share

Basic earnings per share for the period from September 24, 1999 to December 31, 1999 was $0.53, calculated using net income attributable to shareholders of $267 and the weighted average of the number of shares outstanding for that period of 499 million. Adjusted basic earnings per share for the year ended December 31, 1999 was $1.75. This was derived by using net income attributable to shareholders after demutualization plus net income attributable to mutual operations prior to demutualization and the weighted average of the number of common shares outstanding for the year ended December 31, 1999 of 501 million, assuming that common shares issued to policyholders were outstanding at the beginning of the year.

NOTE 11 | Investment in Manulife Century Life Insurance Company

In April 1999, the Company entered the Japanese life insurance market through the establishment of a new life insurance company, Manulife Century Life Insurance Company ("Manulife Century Life"), with a local company, Daihyaku Mutual Life Insurance Company of Japan ("Daihyaku Mutual").

To establish Manulife Century Life, in March 1999, the Company and Daihyaku Mutual each contributed Yen 40 billion ($515) in cash to be used for operating capital purposes and to acquire, for Yen 40 billion ($515), the business origination capacity of Daihyaku Mutual's 6,000-person sales force, its operations infrastructure, including tangible and intangible assets, material contracts and goodwill, and its business rights to sell new policies. While the Company and Daihyaku Mutual each initially own 50% of the equity of Manulife Century Life, the Company owns 74.6% of the voting shares and controls the Board of Directors.

The total consideration to be paid by Manulife Century Life to Daihyaku Mutual for the business infrastructure acquired can effectively range from Yen 15 billion to Yen 100 billion. In addition, Manulife Financial's equity interest in Manulife Century Life may increase. The total consideration paid and ultimate equity interest are collectively dependent on Manulife Century Life's financial performance over the 15-year period following closing. On March 31, 1999, the Company recorded an additional Yen 15 billion ($190) in goodwill and non-controlling interest in subsidiaries with respect to potential additional payments following closing. Manulife Century Life also initially provided Yen 40 billion ($515) of financial reinsurance to Daihyaku Mutual on its existing inforce life insurance policies.

This transaction has been accounted for as a purchase and accordingly, the assets acquired by Manulife Century Life have been recorded at their estimated fair values of $2 at the date of acquisition. The excess of the purchase price over the fair value of the assets acquired was recorded as goodwill (included in Miscellaneous, Other assets) and is being amortized on a straight-line basis over 20 years.

• NOTE 12 | Pensions and Other Post-Employment Benefits

The Company maintains a number of pension and benefit plans for its eligible employees and agents. Information about the Company's benefit plans, in aggregate, is as follows:

For the years ended December 31	Pension benefits 1999	Pension benefits 1998	Other employee benefits 1999	Other employee benefits 1998
Change in benefit obligation:				
Balance, January 1	$ 612	$ 683	$ 107	$ 91
Service cost	14	15	6	5
Interest cost	37	35	7	7
Plan participants' contributions	1	2	–	–
Amendments	6	9	–	–
Actuarial loss (gain)	(33)	(20)	9	4
Benefits paid	(42)	(53)	(2)	(2)
Liabilities settled through conversion	–	(68)	–	–
Currency	(6)	9	(13)	2
Balance, December 31	$ 589	$ 612	$ 114	$ 107
Change in plan assets:				
Fair value of plan assets, January 1	$ 647	$ 727	$ –	$ –
Actual return on plan assets	68	27	–	–
Employer contribution	–	–	2	2
Plan participants' contributions	1	2	–	–
Benefits paid	(42)	(53)	(2)	(2)
Conversion value paid	–	(65)	–	–
Currency	(8)	9	–	–
Fair value of assets, December 31	$ 666	$ 647	$ –	$ –

As at December 31	Pension benefits 1999	Pension benefits 1998	Other employee benefits 1999	Other employee benefits 1998
Funded status, end of year	$ 77	$ 35	$ (114)	$ (107)
Unrecognized net actuarial gain	(70)	(32)	(59)	(62)
Unrecognized initial transition gain	(17)	(2)	–	–
Unrecognized prior service cost	15	11	–	–
Prepaid (accrued) pension asset (liability)	$ 5	$ 12	$ (173)	$ (169)
Amounts recognized in the Consolidated Balance Sheets consist of:				
Prepaid benefit-cost	$ 121	$ 123	$ –	$ –
Accrued benefit liability	(116)	(111)	(173)	(169)
Prepaid (accrued) pension asset (liability)	$ 5	$ 12	$ (173)	$ (169)

Components of the net benefit expense are as follows:

For the years ended December 31	Pension benefits 1999	Pension benefits 1998	Other employee benefits 1999	Other employee benefits 1998
Defined benefit service cost	$ 14	$ 15	$ 6	$ 5
Defined contribution service cost	16	10	–	–
Interest cost	37	35	7	7
Expected return on plan assets	(42)	(42)	–	–
Net amortizations and deferrals	2	(1)	(4)	(5)
Net benefit expense	$ 27	$ 17	$ 9	$ 7

For the years ended December 31	Pension benefits 1999	Pension benefits 1998
Weighted-average assumptions:		
Discount rate	7.3%	6.3%
Expected return on plan assets	8.3%	7.5%
Rate of compensation increase	3.4%	3.4%

Assumed health care cost trends have a significant effect on the amounts reported for the health care plan. The impact of a 100 basis-point change in assumed health care cost trend rates would be as follows:

	100 basis-point increase	100 basis-point decrease
Effect on total of service and interest costs	3	(2)
Effect on post-employment benefit obligation	16	(14)

• NOTE 13 | Commitments and Contingencies

a) Legal proceedings

Over the past several years, lawsuits, including class actions, were filed against a number of life insurance companies operating in Canada and the United States related to life insurance pricing and sales practices, particularly the sale of life insurance policies on a "vanishing premium" or "premium offset" basis. Life insurance policies with premium offset features were designed in such a way that policy dividends would eventually offset premiums and make it possible for the policyholder to stop paying out-of-pocket premiums within a specified period of time. However, due to significant declines in interest rates, these policies could not generate enough dividends and paid-up additional insurance or interest to cover future premiums. Lawsuits relating to sales of life insurance policies whose values were sensitive to changes in interest or dividend crediting rates or which were sold using the premium offset concept have typically included claims that such sales involved misrepresentations or omissions regarding the cash value of the policies or the premiums necessary to "vanish" future premiums. Certain of these lawsuits have resulted in substantial settlements or jury awards against other companies.

The Company was a named defendant in similar "vanishing premium" cases, including four class actions in Canada. In Canada, two class action suits were resolved by a settlement agreement that was approved by the court in Ontario on November 18, 1998 and the court in British Columbia on December 18, 1998. The estimated cost of the settlement agreement is $72 for class relief and $19 for benefits paid through a policy review process and for administration of the settlement. The class relief is provided by the Company's Valued Customer Program ("VCP"). Delivery of the VCP for policies included in the settlement will be completed in the second quarter of 2000. Final administration of the settlement will be completed before the end of 2000.

In the United States, there have been a number of individual lawsuits and class actions filed against the Company making claims about sales practices and vanishing premiums. Ten of the class actions were consolidated in Federal District Court for the Southern District of California by the Multi-District Litigation Panel. An agreement to settle the consolidated suits was signed on July 8, 1998 and received court approval on December 21, 1998. The total present value of the settlement was estimated at time of settlement to be U.S. $500. Of this, U.S. $450 will be distributed to approximately 161,000 class members through dividends and interest crediting over the life of the block of business. Approximately U.S. $250 will have been distributed to class members in the form of dividends and interest between 1995 (when enhancements were first implemented and which have been credited as part of the settlement) and 2005, while U.S. $200 is projected to be paid out beginning in late 2005 and continuing for the life of the block of business. The remaining U.S. $50 is the amount funding a capped Claim Review Fund. The Claim Review Fund will be distributed by mid-2000 to class members who participated in the settlement's claim review process. All existing known U.S. class actions concerning vanishing premiums and other illustration practices have now been settled.

The estimated costs of the Canadian and U.S. class action settlements are within provisions already made by the Company to address such costs. Management believes that these provisions are also adequate to address the remaining class actions and individual actions, including actions that may result from policyholders who have opted out of class settlement. However, there can be no assurance that these legal proceedings or any further litigation relating to life insurance pricing and sales practices will not have a material adverse effect on the Company's business, financial condition or results of operations.

The Company is also subject to legal actions arising in the ordinary course of business. These legal actions are not expected to have a material adverse effect on the consolidated financial position of the Company.

b) Investment commitments

In the normal course of business, various investment commitments are outstanding which are not reflected in the consolidated financial statements. There were $193 of outstanding investment commitments at December 31, 1999, of which $44 mature in 30 days, $125 mature in 31 to 365 days and $24 mature in 2001 or later. There were $148 of outstanding investment commitments at December 31, 1998, of which $51 matured in 30 days, $89 matured in 31 to 365 days and $8 mature in 2000 or later.

c) Letters of credit

The Company issues letters of credit in the normal course of business. At December 31, 1999, letters of credit in the amount of $887, including $13 against which assets have been pledged, are outstanding.

d) Pledged assets

In the normal course of business, certain of Manulife Financial's subsidiaries pledge their assets as security for liabilities incurred. The amounts pledged were as follows:

As at December 31	1999		1998	
	Bonds	Other	Bonds	Other
In respect of:				
Securities lent	$ 1,074	$ –	$ 664	$ –
Letters of credit	13	–	18	–
Derivatives	–	3	–	9
Regulatory requirements	35	–	33	–
Total	$ 1,122	$ 3	$ 715	$ 9

e) Capital requirements

Dividends and capital distributions are restricted under the Insurance Companies Act (Canada). The ICA requires Canadian insurance companies to maintain at all times minimum levels of capital (which principally includes common shareholders' equity [including retained earnings], non-cumulative perpetual preferred shares, subordinated debt and the participating account) calculated in accordance with the Minimum Continuing Capital and Surplus Requirements. In addition to the requirements under Canadian law, the Company must also maintain minimum levels of capital for its foreign subsidiaries. Such amounts of capital are based on the local statutory accounting basis in each jurisdiction. The most significant of these are the Risk Based Capital requirements for the Company's United States insurance subsidiaries. The Company maintains capital well in excess of the minimum required in all foreign jurisdictions in which the Company does business.

There are additional restrictions on distributions in foreign jurisdictions in relation to shareholder dividends. In the United States, regulatory approval is required if a shareholder dividend distribution from a United States subsidiary company to the parent company would exceed that subsidiary company's earned surplus. Regulatory approval is also required if the distribution (together with other distributions during the previous year) exceeds the greater of the subsidiary's statutory net operating income for the previous year or 10% of its surplus determined at the end of the previous year. The determination must be made in accordance with statutory accounting principles. In 1999, the maximum amount of shareholder dividends transferable from a United States subsidiary to the parent company without permission was U.S. $61 (1998 – U.S. $136).

f) Participating business

In some territories where the Company maintains participating accounts, there are regulatory restrictions on the amounts of profit that can be transferred to shareholders. Where applicable, these restrictions generally take the form of a fixed percentage of the policyholder dividends. For participating business operated as separate "closed blocks," transfers are governed by the terms of Manufacturers Life's Plan of Demutualization.

g) Uncertainty due to the Year 2000 risk

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems that use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 issue that may affect the entity, including those related to customers, suppliers, or other third parties, have been fully resolved.

NOTE 14 | Fair Value of Financial Instruments

Financial instruments refer to both on- and off-balance sheet instruments and may be assets or liabilities. They are contracts that ultimately give rise to a right for one party to receive an asset and an obligation for another party to deliver an asset. Fair values are management's best estimates of the amounts at which instruments could be exchanged in a current transaction between willing parties and are generally calculated based on the characteristics of the instrument and the current economic and competitive environment. These calculations are subjective in nature, involve uncertainties and matters of significant judgement and do not include any tax impact.

Both the fair values and the basis for determining the fair value of invested assets, actuarial liabilities, borrowed funds, subordinated debt and derivative financial instruments are disclosed in notes 3, 4, 6 and 15, respectively.

The fair values of accrued investment income, outstanding premiums, miscellaneous other assets, policy benefits in the course of settlement, provision for unreported claims, policyholder amounts on deposit and other liabilities approximate their carrying values, due to their short-term nature.

The fair value of banking deposits is estimated at $329 at December 31, 1999 (1998 – $266) compared to a carrying value of $333 at December 31, 1999 (1998 – $264). The fair value of these financial instruments is determined by discounting the contractual cash flows, using market interest rates currently offered for deposits with similar terms and conditions.

NOTE 15 | Derivative Financial Instruments

Derivative financial instruments are financial contracts, the values of which are derived from underlying assets or interest or foreign exchange rates. In the ordinary course of business, the Company enters into primarily over-the-counter contracts for asset/liability management purposes. Derivatives such as foreign exchange contracts, interest rate and cross currency swaps, forward rate agreements and equity options are used to manage exposures to interest rate, foreign currency and equity fluctuations in order to ensure a consistent stream of earnings.

Interest rate and foreign exchange swaps are contractual agreements between the Company and a third party to exchange a series of cash flows. For interest rate swaps, counterparties generally exchange fixed and floating interest rate payments based on a notional value in a single currency. For foreign exchange swaps, fixed interest payments and notional amounts are exchanged in different currencies. Notional amount represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows. The notional principal amounts are not included in the Consolidated Balance Sheets.

Replacement cost represents the cost of replacing, at current market rates, all contracts with a positive fair value. The amounts do not take into consideration legal contracts which permit offsetting of positions or any collateral which may be obtained.

Credit risk equivalent is the sum of replacement cost and the potential future credit exposure. The potential future credit exposure represents the potential for future changes in value based upon a formula prescribed by OSFI.

Risk-weighted amount represents the credit risk equivalent, weighted according to the creditworthiness of the counterparty, as prescribed by OSFI.

Fair value is summarized by derivative type and represents the net unrealized gain or loss, accrued interest receivable or payable, and premiums paid or received.

The Company has the following amounts outstanding:

As at December 31	Remaining term to maturity (notional amounts) Under 1 year	1 to 5 years	Over 5 years	Total	Fair value Positive	Negative	Net	Credit risk equivalent	Risk-weighted amount
1999									
Interest rate contracts:									
Swap contracts	$ 263	$ 1,328	$ 1,527	$ 3,118	$ 39	$ (35)	$ 4	$ 69	$ 22
Futures contracts	165	–	–	165	–	–	–	–	–
Options written	7	–	31	38	–	–	–	–	–
Sub-total	$ 435	$ 1,328	$ 1,558	$ 3,321	$ 39	$ (35)	$ 4	$ 69	$ 22
Foreign exchange:									
Swap contracts	–	1,034	480	1,514	64	(33)	31	152	34
Forward contracts	2,052	–	–	2,052	55	(4)	51	75	16
Equity contracts	171	13	–	184	20	–	20	28	7
Total	$ 2,658	$ 2,375	$ 2,038	$ 7,071	$ 178	$ (72)	$ 106	$ 324	$ 79
1998									
Interest rate contracts:									
Swap contracts	$ 383	$ 1,846	$ 726	$ 2,955	$ 44	$ (15)	$ 29	$ 63	$ 19
Futures contracts	206	37	–	243	–	–	–	–	–
Options written	–	–	33	33	–	(1)	(1)	–	–
Sub-total	$ 589	$ 1,883	$ 759	$ 3,231	$ 44	$ (16)	$ 28	$ 63	$ 19
Foreign exchange:									
Swap contracts	22	528	460	1,010	45	(85)	(40)	106	24
Forward contracts	1,920	–	–	1,920	10	(2)	8	29	6
Equity contracts	174	159	–	333	6	(16)	(10)	23	8
Total	$ 2,705	$ 2,570	$ 1,219	$ 6,494	$ 105	$ (119)	$ (14)	$ 221	$ 57

NOTE 16 | Segmented Information

The Company provides a wide range of financial products and services, including individual life insurance, group life and health insurance, pension products, annuities and mutual funds to individual and group customers in Canada, the United States and Asia. The Company also offers reinsurance services, primarily life and accident and health reinsurance, and provides investment management services with respect to the Company's general fund assets, segregated fund assets and mutual funds and, in Canada, to institutional customers.

The Company's business segments include the Canadian, U.S., Asian and Reinsurance divisions. Each division has profit and loss responsibility and develops products, services and distribution strategies based on the profile of its business and the needs of its market.

The accounting policies of the segments are the same as those described in note 1, Nature of operations and significant accounting policies.

The results of the Company's business segments differ from geographic segmentation primarily as a consequence of segmenting the results of the Company's Reinsurance Division into the different geographic segments to which its business pertains.

By segment

For the year ended December 31, 1999	Canadian Division	U.S. Division	Asian Division	Reinsurance Division	Other	Total
Revenue						
Premium income						
Individual life and health	$ 679	$ 1,644	$ 1,338	$ –	$ –	$ 3,661
Group life and health	1,737	59	93	–	2	1,891
Reinsurance	–	–	–	816	–	816
Individual annuities	444	1,224	–	–	–	1,668
Group pensions	368	166	102	–	–	636
Total premium income	$ 3,228	$ 3,093	$ 1,533	$ 816	$ 2	$ 8,672
Investment income	1,696	1,888	310	169	313	4,376
Other revenue	173	678	69	11	84	1,015
Total revenue	$ 5,097	$ 5,659	$ 1,912	$ 996	$ 399	$ 14,063
Interest expense	$ 35	$ 42	$ 35	$ 2	$ 65	$ 179
Net income before tax	$ 299	$ 561	$ 127	$ 145	$ 36	$ 1,168
Income taxes	(63)	(196)	12	(40)	(15)	(302)
Net income	$ 236	$ 365	$ 139	$ 105	$ 21	$ 866
Amortization of realized and unrealized gains	$ 211	$ 347	$ 51	$ 14	$ 164	$ 787
Segregated fund deposits	$ 1,347	$ 9,031	$ 331	$ –	$ –	$ 10,709
As at December 31, 1999						
Actuarial liabilities	$ 16,441	$ 19,310	$ 3,086	$ 775	$ 136	$ 39,748
Funds under management						
General fund	$ 20,697	$ 23,648	$ 5,763	$ 2,794	$ 3,806	$ 56,708
Segregated funds	8,341	39,389	1,325	–	–	49,055
Mutual funds	–	–	164	–	1,477	1,641
Other managed funds	–	–	–	–	4,732	4,732

By geographic location

For the year ended December 31, 1999	Canada	United States	Asia	Other	Total
Revenue					
Premium income					
Individual life and health	$ 774	$ 1,891	$ 1,341	$ 229	$ 4,235
Group life and health	1,761	219	94	59	2,133
Individual annuities	444	1,224	–	–	1,668
Group pensions	368	166	102	–	636
Total premium income	$ 3,347	$ 3,500	$ 1,537	$ 288	$ 8,672
Investment income	2,023	1,977	313	63	4,376
Other revenue	198	684	69	64	1,015
Total revenue	$ 5,568	$ 6,161	$ 1,919	$ 415	$ 14,063

By segment

For the year ended December 31, 1998	Canadian Division	U.S. Division	Asian Division	Reinsurance Division	Other	Total
Revenue						
Premium income						
Individual life and health	$ 647	$ 1,552	$ 717	$ –	$ –	$ 2,916
Group life and health	929	57	43	–	8	1,037
Reinsurance	–	–	–	749	–	749
Individual annuities	334	35	–	–	–	369
Group pensions	330	170	125	–	–	625
Total premium income	$ 2,240	$ 1,814	$ 885	$ 749	$ 8	$ 5,696
Investment income	1,668	1,888	212	151	204	4,123
Other revenue	143	518	47	8	76	792
Total revenue	$ 4,051	$ 4,220	$ 1,144	$ 908	$ 288	$ 10,611
Interest expense	$ 36	$ 43	$ 34	$ 2	$ 43	$ 158
Net income before tax	$ 318	$ 536	$ 88	$ 31	$ (22)	$ 951
Income taxes	(83)	(185)	(8)	(1)	36	(241)
Net income	$ 235	$ 351	$ 80	$ 30	$ 14	$ 710
Amortization of realized and unrealized gains	$ 214	$ 273	$ 25	$ 6	$ 131	$ 649
Segregated fund deposits	$ 1,730	$ 6,837	$ 279	$ –	$ –	$ 8,846
As at December 31, 1998						
Actuarial liabilities	$ 15,804	$ 19,711	$ 2,387	$ 727	$ 109	$ 38,738
Funds under management						
General fund	$ 20,203	$ 23,879	$ 3,577	$ 2,770	$ 2,673	$ 53,102
Segregated funds	6,931	30,224	1,045	–	–	38,200
Mutual funds	–	–	118	–	1,590	1,708
Other managed funds	–	–	–	–	3,680	3,680

By geographic location

For the year ended December 31, 1998	Canada	United States	Asia	Other	Total
Revenue					
Premium income					
Individual life and health	$ 678	$ 1,776	$ 723	$ 155	$ 3,332
Group life and health	950	303	44	73	1,370
Individual annuities	334	35	–	–	369
Group pensions	330	170	125	–	625
Total premium income	$ 2,292	$ 2,284	$ 892	$ 228	$ 5,696
Investment income	1,831	2,020	212	60	4,123
Other revenue	178	516	47	51	792
Total revenue	$ 4,301	$ 4,820	$ 1,151	$ 339	$ 10,611

NOTE 17 | Material Differences Between Canadian and United States Generally Accepted Accounting Principles

The consolidated financial statements of the Company are presented in accordance with Canadian GAAP. Canadian GAAP differs in certain material respects from accounting principles generally accepted in the United States ("U.S. GAAP"). The following is a summary of such material differences.

a) Reconciliation of Canadian GAAP net income and equity to U.S. GAAP net income, comprehensive income and equity

	Net Income		Equity	
For the years ended December 31	1999	1998	1999	1998
Net income and equity determined in accordance with Canadian GAAP	$ 866	$ 710	$ 6,454	$ 6,005
Bonds	(414)	72	1,026	1,405
Mortgages	59	65	(113)	(178)
Stocks	(272)	(142)	247	608
Real estate	(23)	(27)	(669)	(667)
Actuarial liabilities	(311)	(573)	(3,902)	(3,772)
Deferred acquisition costs	855	425	4,221	3,558
Deferred revenue	(80)	(18)	(172)	(94)
Future income taxes	(15)	(46)	(417)	(396)
Demutualization expenses[1]	(33)	(22)	–	(22)
Other reconciling items	120	72	203	73
Net income and equity determined in accordance with U.S. GAAP	$ 752	$ 516	$ 6,878	$ 6,520
Foreign currency translation	(208)	243	–	–
Effect of unrealized gains and losses on available-for-sale bonds and stocks:				
Bonds	(2,879)	660	(43)	2,836
Stocks	918	490	2,662	1,744
Actuarial liabilities	1,617	(439)	(507)	(2,124)
Deferred acquisition costs	234	(198)	(155)	(389)
Deferred revenue	(32)	9	(10)	22
Future income taxes on above	198	(76)	(352)	(550)
Comprehensive income and equity determined in accordance with U.S. GAAP	$ 600	$ 1,205	$ 8,473	$ 8,059

(1) Under U.S. GAAP, demutualization expenses are presented as an extraordinary item in the Consolidated Statements of Operations.

b) Valuation and income recognition differences between Canadian GAAP and U.S. GAAP

	Canadian GAAP	U.S. GAAP
BONDS	Bonds are carried at amortized cost, less an allowance for specific losses. Allowances are provided on a specific bond whenever a decline in the value of the bond is considered to be other than temporary. Realized gains and losses on sale are deferred and brought into income over the lesser of the remaining term to maturity of the security sold or 20 years.	Bonds may be classified as "available for sale," "held to maturity" or "trading" securities. All bonds are classified as "available for sale" by the Company and are carried at fair value in the Consolidated Balance Sheets. A decline in the value of a specific bond that is considered to be other than temporary results in a write-down in the cost basis of the bond and a charge to income in the period of recognition. Realized gains and losses on sale are recognized in income immediately. Unrealized gains and losses are excluded from income and reported net of tax as a separate component of equity.
MORTGAGES	Mortgages are carried at amortized cost less repayments and an allowance for specific losses. Realized gains and losses are deferred and brought into income over the lesser of the remaining term to maturity of the mortgage or loan sold or 20 years.	Mortgages are carried at amortized cost less repayments and an allowance for specific losses. Realized gains and losses are recognized in income immediately.
STOCKS	Stocks are carried at a moving average market basis whereby carrying values are adjusted towards market value at 15% per annum. Specific stocks are written down to fair value if an impairment in the value of the entire stock portfolio (determined net of deferred realized gains) is considered to be other than temporary. Realized gains and losses are deferred and brought into income at the rate of 15% of the unamortized deferred realized gains and losses each year.	Stocks may be classified as "available for sale" or "trading" securities. All stocks are classified as "available for sale" by the Company and are carried at fair value in the Consolidated Balance Sheets. Other than temporary declines in the value of stocks result in a write-down in the cost basis of the stocks and a charge to income in the period of recognition. Realized gains and losses are recognized in income immediately. Unrealized gains and losses are excluded from income and reported net of tax as a separate component of equity.
REAL ESTATE	Real estate is carried at a moving average market basis whereby the carrying values are adjusted towards market value at 10% per annum. Specific properties are written down to market value if an impairment in the value of the entire real estate portfolio (determined net of deferred realized gains) is considered to be other than temporary. Realized gains and losses are deferred and brought into income at the rate of 10% of the unamortized deferred realized gains and losses each year.	Real estate is carried at cost less accumulated depreciation. Specific properties are written down, taking into account discounted cash flows, if an impairment in the value of the property is considered to be other than temporary. Realized gains and losses are recognized in income immediately.

	Canadian GAAP	U.S. GAAP
ACTUARIAL LIABILITIES	Actuarial liabilities for all types of policies are calculated using the policy premium method and represent the amount which, together with estimated future premiums and net investment income, will be sufficient to pay estimated future benefits, policyholder dividends, tax (other than income taxes) and expenses on policies inforce. Actuarial liabilities are comprised of a best estimate reserve and provisions for adverse deviation. Best estimate reserve assumptions are made for the lifetime of the policies and include assumptions with respect to mortality and morbidity trends, investment returns, rates of policy termination, policyholder dividend payments, operating expenses and certain taxes. To recognize the uncertainty in the assumptions underlying the calculation of best estimate reserves, to allow for possible deterioration in experience and to provide greater comfort that reserves are adequate to pay future benefits, the Appointed Actuary is required to add a margin to each assumption. These margins result in the calculation of provisions for adverse deviation, the impact of which is to increase actuarial liabilities and decrease the income that would otherwise be recognized when products are sold. Assumptions are updated regularly and the effects of any changes in assumptions are recognized in income immediately. The provisions for adverse deviations are recognized in income over the term of the policy as the risk of deviation from estimates declines.	There are three main standards for valuing actuarial liabilities as follows: Statement of Financial Accounting Standards No. 60, "Accounting and Reporting by Insurance Enterprises" ("FAS 60") applies to non-participating insurance, including whole life and term insurance, payout annuities, disability insurance and certain reinsurance contracts. Actuarial liabilities are calculated using a net level premium method and represent the present value of future benefits to be paid to, or on behalf of, policyholders and related expenses, less the present value of future net premiums. The assumptions include expected investment yields, mortality, morbidity, terminations and maintenance expenses. A provision for adverse deviation is also included. The assumptions are based on best estimates of long-term experience at the time of policy issue. The assumptions are not changed for future valuations unless it is determined that future income is no longer adequate to recover the existing Deferred Acquisition Costs ("DAC"), in which case the DAC is reduced or written off and, to the extent necessary, actuarial liabilities are increased. The actuarial liabilities may not subsequently be reduced if the circumstances causing the strengthening are no longer applicable. Statement of Financial Accounting Standards No. 97, "Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments" ("FAS 97") applies to universal life type contracts and investment contracts. The actuarial liability for these contracts is equal to the policyholder account value. There is no provision for adverse deviation. If it is determined that future income for universal life type contracts is no longer adequate to recover the existing DAC, the DAC is reduced or written off and, to the extent necessary, actuarial liabilities are increased. The actuarial liabilities may not subsequently be reduced if the circumstances causing the strengthening are no longer applicable. Statement of Financial Accounting Standards No. 120, "Accounting and Reporting by Mutual Life Enterprises and by Insurance Enterprises for Certain Long-Duration Participating Contracts" ("FAS 120") applies to participating insurance contracts. The actuarial liability for these contracts is computed using a net level premium method with mortality and interest assumptions consistent with the non-forfeiture assumptions. There is no provision for adverse deviation. The assumptions are not changed unless it is determined that future income is no longer adequate to recover the existing DAC, in which case the DAC is reduced or written off and, to the extent necessary, actuarial liabilities are increased. The actuarial liabilities may not subsequently be reduced if the circumstances causing the strengthening are no longer applicable. In addition, in accordance with Emerging Issues Task Force Topic No. D-41 ("EITF D-41"), U.S. GAAP requires that actuarial liabilities be adjusted to reflect the changes that would have been necessary if the unrealized gains on bonds and stocks had been realized. This adjustment to actuarial liabilities is recognized directly in equity and is not included in income.
DEFERRED ACQUISITION COSTS	All policy acquisition costs are expensed as incurred. The computation of actuarial liabilities takes this into consideration.	Acquisition costs which vary with, and are primarily related to, the production of new business are deferred and recorded as an asset. This DAC asset is amortized into income in proportion to different measures, depending on the policy type. The deferred acquisition costs associated with FAS 60 policies are amortized and charged to income in proportion to premium income recognized. For non-participating limited payment policies, including annuities not classified as investment contracts, the deferred acquisition costs are amortized in proportion to the amount of the expected future benefit payments for payout annuities and in proportion to face amount for insurance contracts. The deferred acquisition costs associated with FAS 97 and FAS 120 policies (i.e. universal life type contracts, investment contracts and participating insurance contracts) are amortized and charged to income in proportion to the estimated gross profit margins expected to be realized over the life of the contracts. Under FAS 97 and FAS 120, the assumptions used to estimate future gross profits change as experience emerges. In addition, EITF D-41 requires that deferred acquisition costs related to FAS 97 and FAS 120 contracts should be adjusted to reflect the changes that would have been necessary if the unrealized gains and losses on available-for-sale bonds and stocks had actually been realized. This adjustment to deferred acquisition costs is recognized directly in equity and is not included in income.
DEFERRED REVENUE	All premium income is recorded as revenue. The anticipated costs of future services are included within the actuarial liabilities.	Under FAS 97, fees assessed to policyholders relating to services that are to be provided in future years are recorded as deferred revenue. Deferred revenue is amortized to income in the same pattern as DAC.

c) Presentation differences between Canadian GAAP and U.S. GAAP

	Canadian GAAP	U.S. GAAP
PREMIUMS	All premium income is reported as revenue when due. A partially offsetting increase in actuarial liabilities for the related policies is recorded in the Consolidated Statements of Operations.	Under FAS 60 and FAS 120, gross premiums are reported as revenue when due. A partially offsetting increase in actuarial liabilities for the related policies is recorded in the Consolidated Statements of Operations. Premiums collected on FAS 97 contracts are not reported as revenue in the Consolidated Statements of Operations but are recorded as deposits to policyholders' account balances. Fees assessed against policyholders' account balances relating to mortality charges, policy administration and surrender charges are recognized as revenue.
DEATH, MATURITY AND SURRENDER BENEFITS	All death, maturity and surrender benefits are reported in the Consolidated Statements of Operations when incurred. Additionally, to the extent these amounts have previously been provided for in actuarial liabilities, a corresponding release of actuarial liabilities is recorded in the Consolidated Statements of Operations.	For FAS 60 and FAS 120 contracts, all death, maturity and surrender benefits are reported in the Consolidated Statements of Operations when incurred. Additionally, to the extent these amounts have previously been provided for in actuarial liabilities, a corresponding release of actuarial liabilities is recorded in the Consolidated Statements of Operations. For universal life type contracts and investment contracts accounted for under FAS 97, benefits incurred in the period in excess of related policyholders' account balances are recorded in the Consolidated Statements of Operations.
CHANGE IN ACTUARIAL LIABILITIES	Interest credited on policyholders' account balances is included in change in actuarial liabilities in the Consolidated Statements of Operations.	Interest required to support FAS 97 contracts is included in actuarial liabilities in the Consolidated Balance Sheets and is classified in general expenses in the Consolidated Statements of Operations.
SEGREGATED FUND ASSETS AND LIABILITIES	Investments held in segregated funds are carried at market value. Segregated funds are managed separately from those of the general fund of the Company and are, therefore, presented in a separate schedule and are not included in the general fund Consolidated Balance Sheets or Consolidated Statements of Operations.	Assets and liabilities are called separate accounts and are presented in summary lines in the Consolidated Balance Sheets. Assets and liabilities are carried at market values and contract values, respectively.
CONSOLIDATED STATEMENTS OF CASH FLOWS	The cash flows from investment contracts, including deferred annuities and group pensions, are disclosed as an operating activity in the Consolidated Statements of Cash Flows.	The cash flows from investment contracts accounted for under FAS 97 are disclosed as a financing activity in the Consolidated Statements of Cash Flows.
REINSURANCE	Reinsurance recoverables relating to ceded life insurance risks and ceded annuity contract risks are recorded as an offset to actuarial liabilities.	Where transfer of risk has occurred, life insurance actuarial liabilities are presented as a gross liability with the reinsured portion included as reinsurance recoverable. Actuarial liabilities related to annuities are also presented on a gross basis with the reinsured portions accounted for as deposits with reinsurers.
EQUITY	To reflect the demutualization of Manufacturers Life, equity is presented on a continuity of interest basis and, as such, surplus is reclassified to retained earnings net of the costs of services provided by outside vendors in respect of demutualization in the Consolidated Balance Sheets as at December 31, 1999. Shares issued to policyholders are recorded at nominal value and shares issued in a treasury offering are recorded at proceeds received net of share issuance costs in the Consolidated Balance Sheets.	Surplus is reclassified to share capital net of share issuance costs. Shares issued in a treasury offering are recorded at proceeds received net of share issuance costs. Costs incurred to effect the demutualization of Manufacturers Life are expensed in the Consolidated Statements of Operations.

d) Condensed consolidated balance sheets, applicable items

The significant valuation, income recognition and presentation differences between Canadian and U.S. GAAP outlined in notes 17 b) and 17 c) would impact the Consolidated Balance Sheets as follows:

As at December 31	1999 Canadian GAAP	1999 U.S. GAAP	1998 Canadian GAAP	1998 U.S. GAAP
Assets				
Bonds	$ 30,853	$ 30,810	$ 30,691	$ 33,522
Mortgages	6,867	6,705	7,702	7,479
Stocks	4,832	6,642	4,042	5,171
Real estate	3,179	2,445	2,992	2,281
Other investments	1,180	1,260	499	516
Deferred acquisition costs	–	4,066	–	3,169
Future income taxes	529	–	772	–
Reinsurance deposits and amounts recoverable	–	1,520	–	1,338
Other miscellaneous assets	1,930	1,949	893	925
Liabilities and equity				
Actuarial liabilities	$ 39,748	$ 44,187	$ 38,738	$ 44,637
Other policy-related benefits	2,688	2,978	2,482	2,775
Future income taxes	–	240	–	174
Deferred realized net gains	2,266	–	2,735	–
Other liabilities	3,152	4,517	1,392	2,482
Non-controlling interest in subsidiaries	750	692	76	113
Surplus	–	–	6,005	6,520
Common shares and retained earnings	6,454	6,878	–	–
Accumulated effect of comprehensive income on equity	–	1,595	–	1,539

e) Condensed consolidated statements of operations, applicable items

The significant valuation, income recognition and presentation differences between Canadian and U.S. GAAP outlined in notes 17 b) and 17 c) would impact the Consolidated Statements of Operations as follows:

For the years ended December 31	1999 Canadian GAAP	1999 U.S. GAAP	1998 Canadian GAAP	1998 U.S. GAAP
Revenue				
Premium income	$ 8,672	$ 5,479	$ 5,696	$ 4,427
Fee income	–	1,283	–	1,076
Investment income	4,376	3,624	4,123	3,545
Realized investment gains	–	146	–	524
Other revenue	1,015	106	792	81
Policy benefits and expenses				
Policyholder payments	$ 7,346	$ 4,370	$ 6,989	$ 4,502
Change in actuarial liabilities	2,628	2,173	252	1,358
Expenses	2,859	2,931	2,357	2,906
Extraordinary item[1]	$ –	$ 33	$ –	$ 22
Income taxes	$ (302)	$ (317)	$ (241)	$ (287)
Net income	$ 866	$ 752	$ 710	$ 516

(1) Demutualization expenses.

f) Additional information required to be reported under U.S. GAAP

(i) Deferred acquisition costs

Changes in deferred acquisition costs were as follows:

For the years ended December 31	1999	1998
Balance, January 1	$ 3,169	$ 2,751
Capitalization	1,060	744
Accretion of interest	265	224
Amortization	(470)	(543)
Effect of net unrealized gains and losses on bonds and stocks	234	(198)
Foreign currency translation adjustment	(192)	191
Balance, December 31	$ 4,066	$ 3,169

(ii) Unrealized gains (losses) on bonds and stocks

Net unrealized gains (losses) on bonds and stocks included in equity were as follows:

As at December 31	1999	1998
Gross unrealized gains	$ 3,814	$ 5,079
Gross unrealized losses	(1,195)	(499)
Effect on deferred acquisition cost asset	(155)	(389)
Effect on unearned revenue liability	(10)	22
Effect on actuarial liabilities	(507)	(2,124)
Effect on future income taxes	(352)	(550)
Total	$ 1,595	$ 1,539

(iii) Fair value of actuarial liabilities of investment contracts

The fair value of actuarial liabilities of investment contracts as at December 31, 1999 was estimated at $8,042 (1998 – $8,551).

(iv) Earnings per share

Adjusted basic earnings per share for the year ended December 31, 1999 was $1.50. This was derived by using net income attributable to shareholders after demutualization plus net income attributable to mutual operations prior to demutualization and the weighted average of the number of common shares outstanding for the year ended December 31, 1999 of 501 million, assuming that common shares issued to policyholders were outstanding at the beginning of the year. Basic earnings per share is not provided, as a reconciliation from Canadian GAAP net income to U.S. GAAP net income is provided only on an annual basis.

g) Newly issued accounting statements

In June 1998, the U.S. Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative and Similar Financial Instruments and for Hedging Activities." This Statement, which is effective for fiscal years beginning on or after June 15, 2000, requires companies to report derivatives on the balance sheet at fair value with changes in fair value recorded in income or equity. Companies must use a current recognition approach to account for derivatives used in hedging strategies, rather than traditional deferral accounting. Additionally, the definition of a derivative instrument is expanded to include certain structured securities currently accounted for as fixed-maturity securities. The Statement does not form part of Canadian GAAP, and therefore would not impact the Company's reported net income calculated on this basis; however, it could impact the Company's reconciliation of Canadian GAAP net income to U.S. GAAP net income and related disclosures. The effect on the Company's U.S. GAAP net income or financial position cannot be determined at this time.

NOTE 18 | Comparatives

Certain comparative amounts have been reclassified to conform with the current year's presentation.

Supplementary Tables

TABLE 1 | Key Performance Measures

(Canadian $ in millions unless otherwise stated)	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Net income	866	710	743	503	481	281	187	85	201	124	222
Net operating income	866	710	624	503	372	281	187	85	201	187	206
Adjusted shareholders' net income	874	710	743	503	481	281	187	85	201	124	222
Capital*	7,771	7,415	6,377	4,859	3,826	3,052	2,771	2,584	2,162	2,174	2,050
Operating return on shareholders' equity (%)(1)	14.0%	12.9%	13.6%	12.4%	11.4%	9.6%	7.0%	3.3%	9.7%	8.9%	10.6%
Operating return on assets (%)	1.58%	1.37%	1.28%	1.08%	0.93%	0.71%	0.51%	0.26%	0.71%	0.75%	0.90%
Capital* as a percent of liabilities	16.1%	16.2%	14.4%	11.5%	10.6%	8.2%	7.8%	8.0%	7.6%	9.0%	9.4%

*Capital includes: Total equity, Subordinated debt and Trust preferred securities issued by subsidiaries

(1) Previously reported as operating return on surplus

TABLE 2 | Summary Consolidated Balance Sheets

As at December 31 (Canadian $ in millions)	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Assets											
Bonds	30,853	30,691	28,662	25,627	21,259	18,452	16,763	14,805	12,382	10,816	10,737
Mortgages	6,867	7,702	7,809	8,106	6,917	8,555	9,368	9,565	9,052	7,799	6,718
Stocks	4,832	4,042	3,529	2,796	2,592	2,954	2,684	2,260	2,249	1,767	1,702
Real estate	3,179	2,992	2,806	3,044	2,888	3,350	3,395	3,275	2,873	2,602	2,214
Policy loans	3,207	3,137	2,663	2,354	1,973	1,856	1,651	1,425	1,187	1,082	1,003
Cash and short-term investments	3,047	1,329	1,842	2,600	1,792	2,683	2,447	1,554	1,724	1,198	542
Other investments	1,180	499	479	292	173	209	368	557	571	332	288
Total invested assets	53,165	50,392	47,790	44,819	37,594	38,059	36,676	33,441	30,038	25,596	23,204
Other assets	3,543	2,710	2,733	2,424	2,268	2,168	1,818	1,459	711	656	574
Total assets	56,708	53,102	50,523	47,243	39,862	40,227	38,494	34,900	30,749	26,252	23,778
Liabilities											
Actuarial liabilities	39,748	38,738	37,227	36,248	31,257	31,296	29,028	26,666	23,219	20,777	18,383
Other liabilities	8,439	6,873	6,865	6,088	4,759	5,863	6,678	5,635	5,351	3,290	3,343
Subordinated debt	582	627	581	566	341	–	–	–	–	–	–
Non-controlling interest in subsidiaries	750	76	54	48	20	16	17	15	17	11	2
Trust preferred securities issued by subsidiaries	735	783	728	–	–	–	–	–	–	–	–
Total equity(1)	6,454	6,005	5,068	4,293	3,485	3,052	2,771	2,584	2,162	2,174	2,050
Total liabilities and surplus	56,708	53,102	50,523	47,243	39,862	40,227	38,494	34,900	30,749	26,252	23,778

(1) Previously reported as surplus

TABLE 3 | Summary Consolidated Statements of Equity(1)

For the years ended December 31 (Canadian $ in millions)	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Balance, January 1	6,005	5,068	4,293	3,485	3,052	2,771	2,584	2,162	2,174	2,050	1,828
Net income for the year	866	710	743	503	481	281	187	85	201	124	222
Adjustment to equity(1)	–	–	(48)	321	–	–	–	337	(213)	–	–
Conversion costs	(31)	–	–	–	–	–	–	–	–	–	–
Cash distributions to policyholders	(694)	–	–	–	–	–	–	–	–	–	–
Issue of common shares	694	–	–	–	–	–	–	–	–	–	–
Initial public offering costs	(58)	–	–	–	–	–	–	–	–	–	–
Purchase & cancellation of common shares	(128)	–	–	–	–	–	–	–	–	–	–
Change in Currency Translation Account	(200)	227	80	(16)	(48)	–	–	–	–	–	–
Balance, December 31	6,454	6,005	5,068	4,293	3,485	3,052	2,771	2,584	2,162	2,174	2,050

(1) Previously reported as surplus

Certain amounts have been restated to conform with the 1999 presentation.

TABLE 4 | Summary Consolidated Statements of Operations

For the years ended December 31 (Canadian $ in millions)	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Revenue											
Premium income	8,672	5,696	5,622	5,694	5,193	4,988	4,456	4,104	4,000	3,933	3,521
Investment income	4,376	4,123	4,010	3,734	3,231	2,882	2,853	2,744	2,635	2,447	2,325
Other revenue	1,015	792	574	447	212	218	151	102	106	102	105
Total revenue	14,063	10,611	10,206	9,875	8,636	8,088	7,460	6,950	6,741	6,482	5,951
Policy benefits and expenses											
Payments to policyholders and beneficiaries	6,608	6,385	6,508	5,883	5,132	4,678	3,764	3,239	2,722	2,665	2,488
Increase in actuarial liabilities	2,628	252	169	873	1,089	1,214	1,788	2,004	2,378	2,272	1,938
Policyholder dividends and experience rating refunds	738	604	508	471	356	312	267	247	212	192	181
General expenses and commissions	2,710	2,118	1,868	1,693	1,220	1,204	1,058	996	910	893	885
Interest expense	179	158	156	161	203	243	281	297	223	183	185
Premium taxes	84	74	83	72	64	57	50	52	38	37	20
Non-controlling interest in subsidiaries	(114)	7	11	6	2	1	2	(3)	–	–	–
Trust preferred securities issued by subsidiaries	62	62	54	–	–	–	–	–	–	–	–
Total policy benefits and expenses	12,895	9,660	9,357	9,159	8,066	7,709	7,210	6,832	6,483	6,242	5,697
Income before preferred share dividends, unusual items and income taxes	1,168	951	849	716	570	379	250	118	258	240	254
Preferred share dividends	–	–	–	–	–	–	–	(16)	(16)	(16)	(16)
Unusual items	–	–	176	–	126	–	–	–	–	(63)	16
Income taxes	(302)	(241)	(282)	(213)	(215)	(98)	(63)	(17)	(41)	(37)	(32)
Net income	866	710	743	503	481	281	187	85	201	124	222
Net loss attributed to:											
Participating policyholders (after demutualization)	(8)	–	–	–	–	–	–	–	–	–	–
Net income attributed to:											
Mutual operations (prior to demutualization)	607	710	743	503	481	281	187	85	201	124	222
Shareholders (after demutualization)	267	–	–	–	–	–	–	–	–	–	–
Adjusted shareholders' net income	874	710	743	503	481	281	187	85	201	124	222
Net income	866	710	743	503	481	281	187	85	201	124	222

TABLE 5 | Funds under Management

As at December 31 (Canadian $ in millions)	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Funds under management by category											
General fund	56,708	53,102	50,523	47,243	39,862	40,227	38,494	34,900	30,749	26,252	23,778
Segregated funds	49,055	38,200	27,018	18,553	5,532	5,445	4,012	2,734	2,270	1,905	1,901
Mutual funds	1,641	1,708	2,125	2,782	934	746	563	441	477	–	–
Securitized funds	–	–	–	–	–	4,622	4,477	3,696	2,435	–	–
Other managed funds	4,732	3,680	2,652	2,944	330	279	–	–	–	–	–
Total	112,136	96,690	82,318	71,522	46,658	51,319	47,546	41,771	35,931	28,157	25,679

Certain amounts have been restated to conform with the 1999 presentation.

TABLE 6 | Premiums and Deposits by Line of Business and Geographic Territory

For the years ended December 31 (Canadian $ in millions)	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
General fund premiums by line of business											
Individual life and health insurance	3,661	2,916	2,690	2,631	2,354	2,252	2,156	1,948	1,741	1,579	1,402
Group life and health insurance	1,891	1,037	1,068	1,112	735	584	385	347	309	290	257
Individual annuities	1,668	369	440	622	935	1,031	844	774	939	718	771
Group pensions	636	625	627	676	600	567	573	634	680	1,024	801
Reinsurance	816	749	797	653	569	554	498	401	331	322	290
Total	8,672	5,696	5,622	5,694	5,193	4,988	4,456	4,104	4,000	3,933	3,521
General fund premiums by geographic territory											
Canada	3,347	2,292	2,294	2,549	2,142	1,963	1,548	1,459	1,418	1,084	1,094
United States	3,498	2,276	2,202	2,181	2,152	2,241	2,373	2,161	2,190	2,163	1,835
International	1,825	1,120	1,121	964	806	685	438	367	280	211	167
Reinsurance(1)	–	–	–	–	–	–	–	–	–	322	290
Divested operations	2	8	5	–	93	99	97	117	112	153	135
Total	8,672	5,696	5,622	5,694	5,193	4,988	4,456	4,104	4,000	3,933	3,521

(1) Not split geographically prior to 1991.

For the years ended December 31 (Canadian $ in millions)	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Segregated fund deposits by geographic territory											
Canada	1,347	1,730	1,418	757	323	671	488	204	118	111	102
United States	9,031	6,837	5,376	3,365	931	670	385	214	126	114	84
International	331	279	232	169	113	78	57	37	32	30	23
Divested operations	–	–	–	–	37	171	162	161	168	249	152
Total	10,709	8,846	7,026	4,291	1,404	1,590	1,092	616	444	504	361

Certain amounts have been restated to conform with the 1999 presentation.

TABLE 7 | Quarterly Information – Summary Statements of Operations

For the three months ended (Canadian $ in millions)	12/31/99	9/30/99	6/30/99	3/31/99	12/31/98	9/30/98	6/30/98	3/31/98
Revenues								
Premium income	2,215	2,110	2,656	1,691	1,579	1,445	1,311	1,361
Investment income	1,311	1,023	1,018	1,024	1,117	955	1,023	1,028
Other revenue	276	261	253	225	212	188	213	179
Total revenue	3,802	3,394	3,927	2,940	2,908	2,588	2,547	2,568
Policy benefits and expenses								
Payments to policyholders and beneficiaries	1,767	1,650	1,640	1,551	1,635	1,562	1,584	1,604
Increase in actuarial liabilities	595	541	1,141	351	167	64	(17)	38
Policyholder dividends and experience rating refunds	209	200	182	147	169	157	158	120
General expenses and commissions	751	722	676	561	605	528	489	496
Interest expense	58	34	46	41	38	39	42	39
Premium taxes	20	23	20	21	15	20	19	20
Non-controlling interest in subsidiaries	18	(67)	(66)	1	7	(3)	2	1
Trust preferred securities issued by subsidiaries	15	14	18	15	17	16	15	14
Total policy benefits and expenses	3,433	3,117	3,657	2,688	2,653	2,383	2,292	2,332
Income before income taxes	369	277	270	252	255	205	255	236
Income taxes	(126)	(53)	(66)	(57)	(56)	(63)	(66)	(56)
Net income	243	224	204	195	199	142	189	180
Net loss attributed to:								
Participating policyholders (after demutualization)	(8)	–	–	–	–	–	–	–
Net income attributed to:								
Mutual operations (prior to demutualization)	–	208	204	195	199	142	189	180
Shareholders (after demutualization)	251	16	–	–	–	–	–	–
Adjusted shareholders' net income	251	224	204	195	199	142	189	180
Net income	243	224	204	195	199	142	189	180
Return on shareholders' equity(1) (annualized)	15.7%	14.2%	13.1%	12.8%	13.5%	10.1%	14.2%	14.0%
Return on assets (YTD) (annualized)	1.58%	1.51%	1.47%	1.46%	1.37%	1.32%	1.45%	1.43%
Capital as a percent of liabilities	16.1%	16.0%	16.2%	16.6%	16.2%	15.9%	15.4%	15.0%

(1) Previously reported as return on surplus

Certain amounts have been restated to conform with the 1999 presentation.

Responsibility for Financial Reporting

The accompanying consolidated financial statements of The Manufacturers Life Insurance Company are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. When alternative accounting methods exist, or when estimates and judgement are required, management has selected those amounts which present the Company's financial position and results of operations in a manner most appropriate to the circumstances.

Appropriate systems of internal control, policies and procedures have been maintained, consistent with reasonable cost, to ensure that financial information is both relevant and reliable. The systems of internal control are assessed on an ongoing basis by the Company's internal audit department.

The actuary appointed by the Board of Directors (the "Appointed Actuary") is responsible for ensuring that assumptions and methods used in the determination of actuarial and policy liabilities are appropriate to the circumstances and that such reserves will be adequate to meet the Company's future obligations under insurance and annuity contracts.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. These responsibilities are carried out primarily through an Audit Committee of unrelated directors appointed by the Board of Directors.

The Audit Committee meets periodically with management, the internal auditors, the external auditors and the Appointed Actuary to discuss internal control over the financial reporting process, auditing matters and financial reporting issues. The Audit Committee reviews the consolidated financial statements and recommends them to the Board of Directors for approval. The Audit Committee also recommends to the Board of Directors and policyholders the appointment of external auditors and approval of their fees.

The consolidated financial statements have been audited by the Company's external auditors, Ernst & Young LLP in accordance with auditing standards generally accepted in Canada. Ernst & Young LLP has full and free access to the Audit Committee.

Dominic D'Alessandro
President and Chief Executive Officer

Peter Rubenovitch
Executive Vice President and
Chief Financial Officer

Toronto, Canada
February 18, 1999

Appointed Actuary's Report to the Policyholders and Directors of The Manufacturers Life Insurance Company

I have valued the policy liabilities of The Manufacturers Life Insurance Company for its Consolidated Balance Sheets at December 31, 1998 and 1997 and their change in the Consolidated Statements of Operations for the years then ended in accordance with actuarial practice generally accepted in Canada, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations and the consolidated financial statements fairly present the results of the valuation.

Geoff I. Guy, F.C.I.A.
Senior Vice President and Appointed Actuary

Toronto, Canada
February 18, 1999

Auditors' Report to the Policyholders and Directors

We have audited the Consolidated Balance Sheets of The Manufacturers Life Insurance Company and the Consolidated Statements of Net Assets of its Segregated Funds as at December 31, 1998 and 1997 and the Consolidated Statements of Operations and Surplus and Cash Flows and the Consolidated Statements of Changes in Net Assets of its Segregated Funds for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company and its Segregated Funds as at December 31, 1998 and 1997 and the results of the Company's operations and the changes in its financial position and the changes in the net assets of its Segregated Funds for the years then ended in accordance with accounting principles generally accepted in Canada including the accounting requirements of the Superintendent of Financial Institutions (Canada).

Ernst & Young LLP
Chartered Accountants

Toronto, Canada
February 18, 1999

Consolidated Balance Sheets

(Canadian $ in millions)	As at December 31	
Assets	**1998**	1997
Invested assets (note 3)		
Bonds	**$ 30,691**	$ 28,662
Mortgages	**7,702**	7,809
Stocks	**4,042**	3,529
Real estate	**2,992**	2,806
Policy loans	**3,137**	2,663
Cash and short-term investments	**1,329**	1,842
Other investments	**499**	479
	$ 50,392	$ 47,790
Other assets		
Accrued investment income	**732**	694
Outstanding premiums	**313**	440
Deferred income taxes (note 5)	**772**	841
Miscellaneous	**893**	758
	2,710	2,733
Total assets	**$ 53,102**	$ 50,523
Segregated funds net assets	**$ 38,200**	$ 27,018
Liabilities and surplus		
Actuarial liabilities (note 4)	**$ 38,738**	$ 37,227
Policy benefits in course of settlement and provision for unreported claims	**1,441**	1,441
Policyholder amounts on deposit	**1,041**	916
Deferred realized net gains (note 3)	**2,735**	2,596
Trust and banking deposits	**264**	294
Borrowed funds	**3**	32
Other liabilities	**1,465**	1,640
	$ 45,687	$ 44,146
Subordinated debt (note 6)	**627**	581
Trust preferred securities issued by subsidiaries (note 7)	**783**	728
Surplus	**6,005**	5,068
Commitments and contingencies (note 10)		
Total liabilities and surplus	**$ 53,102**	$ 50,523
Segregated funds net liabilities	**$ 38,200**	$ 27,018

Dominic D'Alessandro
President and Chief Executive Officer

Arthur R. Sawchuk
Chairman of the Board of Directors

Consolidated Statements of Operations

(Canadian $ in millions)	For the years ended December 31			
	1998	1997		
Revenue		Operations	Other	Total
Premium income				
Individual life and health insurance	$ 2,966			$ 2,690
Group life and health insurance	987			1,068
Reinsurance	749			797
Individual annuities	369			440
Group pensions	625			627
Total premium income	$ 5,696			$ 5,622
Investment income (note 3(b))	4,123			4,010
Other revenue	792			574
Total revenue	$ 10,611			$ 10,206
Policy benefits and expenses				
To policyholders and beneficiaries				
Death and disability benefits	$ 2,331			$ 2,160
Maturity and surrender benefits	1,986			2,399
Annuity payments	1,270			1,257
Net transfers to segregated funds	798			692
Increase in actuarial liabilities (note 4)	252			169
Policyholder dividends	604			508
General expenses	1,367			1,191
Commissions	758			688
Interest expense	158			156
Premium taxes	74			83
Trust preferred securities issued by subsidiaries	62			54
Total policy benefits and expenses	$ 9,660			$ 9,357
Income before gain on divestiture and income taxes	951	849	–	849
Gain on divestiture (note 8)	–	–	176	176
Income taxes (note 5)	(241)	(225)	(57)	(282)
Net income	$ 710	$ 624	$ 119	$ 743

Consolidated Statements of Surplus

(Canadian $ in millions)	For the years ended December 31	
Operating surplus	1998	1997
Balance, January 1	$ 5,052	$ 4,357
Change in accounting policy (note 2)	–	(48)
Balance, January 1 as restated	5,052	$ 4,309
Net income	710	743
Balance, December 31	$ 5,762	$ 5,052
Currency translation account		
Balance, January 1	$ 16	$ (64)
Change during the year	227	80
Balance, December 31	243	16
Total surplus	$ 6,005	$ 5,068

Consolidated Statements of Cash Flows

(Canadian $ in millions)	For the years ended December 31	
Operating activities	**1998**	1997
Operating cash inflows		
Premiums and annuity considerations	**$ 5,822**	$ 5,523
Investment income received	**3,418**	3,400
Other revenue	**792**	574
Total operating cash inflows	**$ 10,032**	$ 9,497
Operating cash outflows		
Benefits and annuity payments	**$ 5,556**	$ 5,496
Insurance expenses and taxes	**2,540**	2,233
Net transfers to segregated funds	**798**	692
Dividends paid to policyholders	**604**	508
Change in other assets and liabilities	**545**	(65)
Total operating cash outflows	**$ 10,043**	$ 8,864
Cash provided by (used in) operating activities	**$ (11)**	$ 633
Investment activities		
Purchases and mortgage advances	**$ (27,679)**	$ (42,314)
Disposals and repayments	**27,317**	40,613
Cash used in investing activities	**$ (362)**	$ (1,701)
Financing Activities		
Funds repaid	**$ (29)**	$ (333)
Issue of securities (note 7)	**–**	672
Cash provided by (used in) financing activities	**$ (29)**	$ 339
Cash and short-term investments		
Decrease during the year	**$ (402)**	$ (729)
Balance, January 1	**1,542**	2,271
Balance, December 31	**$ 1,140**	$ 1,542

Composition of cash and short-term investments		
Beginning of period		
Gross cash and short-term investments	**$ 1,842**	$ 2,600
Net payments in transit, included in other liabilities	**(300)**	(329)
Net cash and short-term investments, January 1	**$ 1,542**	$ 2,271
End of period		
Gross cash and short-term investments	**$ 1,329**	$ 1,842
Net payments in transit, included in other liabilities	**(189)**	(300)
Net cash and short-term investments, December 31	**$ 1,140**	$ 1,542

Segregated Funds
Consolidated Statements of Net Assets

(Canadian $ in millions)	As at December 31 1998	1997
Investments, at market values		
Bonds	**$ 3,909**	$ 4,544
Mortgages	**5**	6
Stocks	**32,142**	19,950
Real estate	**15**	24
Cash and short-term investments	**2,101**	2,481
Accrued investment income	**22**	23
Other assets (liabilities), net	**6**	(10)
Total segregated fund net assets, December 31	**$ 38,200**	$ 27,018
Composition of segregated fund net assets:		
Held by Policyholders	**$ 38,055**	$ 26,892
Held by the Company	**145**	126
Total segregated fund net assets, December 31	**$ 38,200**	$ 27,018

Segregated Funds
Consolidated Statements of Changes in Net Assets

(Canadian $ in millions)	For the years ended December 31 1998	1997
Additions		
Deposits from policyholders	**$ 8,846**	$ 7,026
Realized and unrealized investment gains	**2,604**	2,423
Interest and dividends	**1,161**	847
Net transfers from general fund	**798**	692
Currency revaluation	**1,968**	828
Total additions	**$ 15,377**	$ 11,816
Deductions		
Payments to policyholders	**$ 3,759**	$ 2,968
Management and administrative fees	**436**	383
Total deductions	**$ 4,195**	$ 3,351
Net additions to segregated funds for the year	**$ 11,182**	$ 8,465
Segregated fund net assets, January 1	**27,018**	18,553
Segregated fund net assets, December 31	**$ 38,200**	$ 27,018

Notes to Consolidated Financial Statements

(Canadian $ in millions unless otherwise stated)

1. Nature of operations and significant accounting policies

The Manufacturers Life Insurance Company is a mutual life insurance company providing a wide range of financial products and services, including individual life insurance, group life and health insurance, pensions, annuities and mutual funds to individual and group customers in Canada, the United States and Asia. The Company also offers reinsurance services, primarily life and accident and health reinsurance and provides investment management services with respect to the Company's general fund assets, segregated fund assets and mutual funds and, in Canada, to institutional customers.

The Manufacturers Life Insurance Company is registered under the Insurance Companies Act (Canada), which requires that financial statements be prepared in accordance with accounting principles generally accepted in Canada, including the requirements of the Superintendent of Financial Institutions (Canada) ("OSFI"), ("GAAP"). None of the accounting requirements of OSFI is an exception to accounting principles generally accepted in Canada.

The preparation of financial statements, in conformity with GAAP, requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimation processes are related to the determination of actuarial liabilities. Although some variability is inherent in these estimates, management believes that the amounts provided are adequate.

The significant accounting policies used in the preparation of these consolidated financial statements are summarized below:

a) Basis of consolidation

The Manufacturers Life Insurance Company consolidates the financial statements of all subsidiary companies and eliminates on consolidation all significant inter-company balances and transactions. The equity method is used to account for investments over which the Company exerts significant influence. Gains and losses on sales of these investments are included in income when realized, while expected losses on other than temporary impairments are recognized immediately.

b) Invested assets

Under GAAP for life insurance companies, the invested assets held by the Company are accounted for through a variety of methods. These are summarized as follows:

	Carrying value	Recognition of realized gains and losses on normal business activity	Recognition of impairment
Bonds	At amortized cost less an allowance for specific losses.	Deferred and brought into income over the lesser of twenty years or the remaining term to maturity of the bond sold.	Impairment is recognized on a specific bond when there is no longer reasonable assurance as to the timely collection of the full amount of principal and interest.
Mortgages and loans	At amortized cost less repayments and an allowance for specific losses.	Deferred and brought into income over the lesser of twenty years or the remaining term to maturity of the mortgage or loan sold.	Impairment is recognized on a specific mortgage or loan when there is no longer reasonable assurance as to the timely collection of the full amount of principal and interest. Such impaired mortgages and loans are carried at their estimated realizable value, determined for each asset by discounting the expected future cash flows at the original interest rate inherent in the asset. When the amounts and timing of future cash flows cannot be estimated with reasonable reliability, estimated realizable amounts are measured at either the fair value of any security underlying the mortgage or loan, net of expected costs of realization and any amounts legally required to be paid to borrowers or at observable market prices for the mortgages or loans. Mortgages and loans are classified as impaired whenever payments are 90 days or more in arrears. At the time of foreclosure, mortgages are written down to net realizable value. Declines in the net realizable value of foreclosed properties are charged to income immediately.
Stocks	On a moving average market basis whereby carrying values are adjusted towards market value at 15% per annum.	Deferred and brought into income at the rate of 15% of unamortized deferred realized gains and losses each year.	Specific stocks are written down to market value if an impairment in the value of the entire stock portfolio is considered to be other than temporary.
Real estate	On a moving average market basis whereby carrying values are adjusted towards market value at 10% per annum.	Deferred and brought into income at the rate of 10% of unamortized deferred realized gains and losses each year.	Specific properties are written down to market value if an impairment in the value of the entire real estate portfolio (determined net of deferred realized gains) is considered to be other than temporary.
Policy loans	At their unpaid balance.	Not applicable.	Fully secured by the cash surrender value of the policies on which the loans are made.

On disposition of an impaired asset, the allowance is written-off against the related assets. Once established, an allowance against temporary impairment of bonds or mortgages is only reversed if the conditions that caused the impairment no longer exist.

In addition to specific allowances, the Company provides for potential future impairments by reducing investment yields assumed in the calculation of actuarial liabilities.

c) Actuarial liabilities
Actuarial liabilities represent the amount which, together with estimated future premiums and net investment income will be sufficient to pay estimated future policy benefits, policyholder dividends, taxes (other than income taxes) and expenses on policies inforce. The Company's Appointed Actuary is responsible for determining the amount of actuarial liabilities that must be set aside each year to ensure that sufficient funds will be available in the future to meet these obligations. The valuation methods employed by the Appointed Actuary are based on standards established by the Canadian Institute of Actuaries. In accordance with actuarial practices generally accepted in Canada, liabilities have been determined using the policy premium method and the cash flow valuation method.

d) Other investments
Included in other investments are investments in oil and gas properties, commercial loans, investments in segregated and mutual funds and derivative assets.

e) Miscellaneous assets
Included in miscellaneous assets are amounts due from reinsurers and capital assets. The latter are carried at cost less accumulated depreciation computed on a straight-line basis over their estimated useful lives, which vary from two to ten years.

f) Segregated funds
The Company manages a number of segregated funds on behalf of policyholders. The investment returns on these funds accrue directly to the policyholders with the Company assuming no risk. Consequently, these funds are segregated and presented separately from the general fund of the Company. Income earned from fund management fees is included in other revenue in the general fund. Investments held in segregated funds are carried at market value.

The Company also provides minimum guarantees on individual variable life and annuity contracts. These include minimum death benefit guarantees, minimum maturity value guarantees and minimum income benefit guarantees. The liability associated with these minimum guarantees is recorded in actuarial liabilities in the general fund of the Company.

g) Translation of foreign currencies
Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates in effect at the consolidated balance sheet date. Revenue and expenses are translated at the average exchange rates prevailing during the year. Unrealized foreign currency translation gains and losses on investments in self-sustaining operations are recorded in surplus. Translation gains and losses on disposition of investments in self-sustaining operations are included in income.

h) Income taxes
The Company provides for income taxes using the liability method of tax allocation. Under this method, the provision for income taxes is calculated based on income tax laws and income tax rates in effect as at the consolidated balance sheet date. The income tax provision is comprised of two components: current income taxes and deferred income taxes. Current income taxes are amounts expected to be payable or recoverable as a result of operations in the current year. Deferred income taxes arise from changes during the year in cumulative temporary differences between the accounting carrying value of assets and liabilities and their respective tax bases. The deferred income tax asset is recognized to the extent that future realization of the tax benefit is more likely than not, with a valuation allowance for that portion of the asset that is not likely to be realized.

i) Pensions and other post-retirement benefits

The Company maintains a number of pension plans for its eligible employees and agents. Assets for each plan are held by independent trustees and are carried at market related values.

The defined contribution plans were established in 1998 and provide pension benefits based on the accumulated contributions and fund earnings. The cost of defined contribution benefits is the required contribution provided by the Company in exchange for the services of employees rendered during the period.

The defined benefit plans provide pension benefits based on length of service and final average earnings. The cost of defined benefit pension benefits is recognized using the projected benefit method pro-rated on services. Experience gains and losses are amortized to income over the estimated average remaining service lives of plan members.

The Company also provides supplementary health, dental and life insurance benefits to qualifying employees upon retirement. The estimated present value of these benefits is charged to earnings over the employees' years of service to their date of full entitlement.

j) Derivatives

The Company uses derivatives to manage exposures to foreign currency, interest rate and other market risks arising from its on-balance sheet financial instruments. These derivatives are designated and effective as hedges, as there is a high correlation between changes in market value of the derivative and the underlying hedged item at inception and over the life of the hedge. Realized and unrealized gains and losses on these derivatives are accounted for on the same basis as the underlying assets and liabilities. Realized and unrealized gains and losses on derivative transactions established as hedges but no longer considered hedges, are included in income from the date at which they are no longer considered to be hedges. Derivative income and expenses related to invested assets and financial liabilities are included in investment income and interest expense respectively, in the Consolidated Statements of Operations. Cash flows relating to derivatives associated with invested assets and financial liabilities are included in the Consolidated Statements of Cash Flows on a basis consistent with the cash flows from the underlying invested assets and financial liabilities. Derivative assets and liabilities are included in other investments and other liabilities, respectively, and deferred realized net gains are presented as such on the Consolidated Balance Sheets.

2. Change in accounting policy

Impairment in value of stocks and real estate

In March 1997, The Canadian Institute of Chartered Accountants ("CICA") issued an accounting guideline entitled "Financial Reporting by Life Insurance Enterprises". This guideline requires that stock and real estate portfolios be considered discrete portfolios for the purpose of determining whether an other than temporary impairment in value has occurred. The Company adopted this guideline in 1997 on a retroactive basis, with no restatement of prior years' financial statements. Adoption of this guideline has accelerated the recognition of market value deficiencies (determined net of deferred realized gains) on the Company's real estate portfolio and resulted in the following adjustment, effective January 1, 1997:

	Adjustment for other than temporary declines in value of real estate
Real estate	$ (253)
Deferred realized gains on real estate	193
Net reduction in carrying value of real estate, before taxes	(60)
Deferred income taxes	12
Adjustment to surplus	**$ (48)**

3. Invested assets and income

a) Invested assets

As at December 31 **1998**	Carrying value	Fair value	Unrealized gains	Unrealized (losses)	Deferred realized net gains	Total realized and unrealized gains (losses)
Bonds (fixed maturity)						
Canadian government	**$ 6,951**	**$ 8,142**	**$ 1,194**	**$ (3)**	**$ 326**	**$ 1,517**
Other foreign governments	**4,725**	**5,068**	**349**	**(6)**	**222**	**565**
Corporate	**17,244**	**18,539**	**1,541**	**(246)**	**809**	**2,104**
Mortgage-backed securities	**1,771**	**1,773**	**39**	**(37)**	**83**	**85**
Mortgages	**7,702**	**8,223**	**547**	**(26)**	**45**	**566**
Stocks	**4,042**	**5,171**	**1,336**	**(207)**	**1,202**	**2,331**
Real estate	**2,992**	**3,087**	**209**	**(114)**	**45**	**140**
Policy loans	**3,137**	**3,137**	**–**	**–**	**–**	**–**
Cash and short-term investments	**1,329**	**1,329**	**–**	**–**	**–**	**–**
Other investments	**499**	**531**	**40**	**(8)**	**3**	**35**
Total invested assets	**$ 50,392**	**$ 55,000**	**$ 5,255**	**$ (647)**	**$ 2,735**	**$ 7,343**
1997						
Bonds (fixed maturity)						
Canadian government	$ 6,399	$ 7,319	$ 927	$ (7)	$ 318	$ 1,238
Other foreign governments	3,186	3,302	155	(39)	158	274
Corporate	17,509	18,614	1,253	(148)	869	1,974
Mortgage-backed securities	1,568	1,598	33	(3)	79	109
Mortgages	7,809	8,372	607	(44)	32	595
Stocks	3,529	4,336	1,016	(209)	1,043	1,850
Real estate	2,806	2,741	112	(177)	32	(33)
Policy loans	2,663	2,663	–	–	–	–
Cash and short-term investments	1,842	1,842	–	–	–	–
Other investments	479	530	54	(3)	65	116
Total invested assets	$ 47,790	$ 51,317	$ 4,157	$ (630)	$ 2,596	$ 6,123

Fair values are determined with reference to quoted market prices where available. Fair values of mortgages reflect changes in interest rates which have occurred since the mortgages were originated and changes in the creditworthiness of individual borrowers. For fixed-rate mortgages, fair value is determined by discounting the expected future cash flows at market interest rates for mortgages with similar credit risks. Fair values of real estate are determined by a combination of internal and external appraisals utilizing expected net cash flows discounted at market interest rates. Fair values of policy loans, cash and short-term investments and other investments approximate their carrying values due to their short-term nature.

As at December 31, 1997, the fair value deficiency (determined net of deferred realized gains) on the Company's real estate portfolio was $33. As at December 31, 1998, the fair value deficiency has reversed with the appraised value of real estate exceeding the carrying value including deferred realized net gains by $140. Foreclosed properties of $196 are included in real estate at December 31, 1998 (1997 - $299).

The following table presents the carrying value and fair value of bonds, based on period to maturity:

	As at December 31			
	1998		1997	
Bonds	Carrying value	Fair value	Carrying value	Fair value
Maturity				
Due in one year or less	$ 1,515	$ 1,530	$ 1,312	$ 1,337
Due after one year through five years	7,712	7,884	6,947	6,981
Due after five years through ten years	6,420	6,704	6,359	6,535
Due after ten years	13,273	15,631	12,476	14,382
Mortgage-backed securities	1,771	1,773	1,568	1,598
Total	$ 30,691	$ 33,522	$ 28,662	$ 30,833

The following table presents the carrying value and fair value of mortgages, by type of property:

	As at December 31			
	1998		1997	
Mortgages	Carrying value	Fair value	Carrying value	Fair value
Residential	$ 1,600	$ 1,714	$ 1,712	$ 1,836
Office	1,719	1,849	1,602	1,730
Retail	2,344	2,490	2,448	2,612
Industrial	1,804	1,913	1,777	1,898
Other	235	257	270	296
Total	$ 7,702	$ 8,223	$ 7,809	$ 8,372

The carrying value of government-insured loans was 4.8% of the total carrying value of the mortgage portfolio as at December 31, 1998 (1997 – 5.7%) and the value of privately-insured mortgages was 0.1% of the total mortgage portfolio as at December 31, 1998 (1997 – 0.2%).

b) Investment income

For the years ended December 31	Investment Income	Provision for Impairment, net (note 3(c))	Amortization of realized and unrealized gains (losses)	Total	Yield %
1998					
Bonds	$ 2,273	$ (107)	$ 122	$ 2,288	8.09
Mortgages	672	23	–	695	9.39
Stocks	85	–	391	476	19.76
Real estate	199	23	13	235	8.57
Policy loans	255	–	–	255	8.57
Cash and short-term investments	88	–	–	88	3.94
Other investments	79	–	(9)	70	N/A
Currency	–	–	16	16	N/A
Total	$ 3,651	$ (61)	$ 533	$ 4,123	8.77
1997					
Bonds	$ 2,085	$ (2)	$ 192	$ 2,275	8.69
Mortgages	734	22	–	756	9.85
Stocks	72	–	320	392	20.60
Real estate	175	5	(3)	177	6.44
Policy loans	215	–	–	215	8.43
Cash and short-term investments	98	–	–	98	5.41
Other investments	72	–	9	81	N/A
Currency	–	–	16	16	N/A
Total	$ 3,451	$ 25	$ 534	$ 4,010	9.13

Yields are based on investment income divided by the average carrying value of assets plus accrued income less net deferred gains.

c) Credit risk

Credit risk is the risk that a party to a financial instrument, such as a mortgage borrower, will fail to fully honor its financial obligations to the Company. Credit risks are primarily associated with investment, derivative and reinsurance counterparties.

The Company has provided for credit risks by establishing specific allowances against the carrying value of the impaired assets in the Consolidated Balance Sheets. In addition to specific allowances, the Company provides for potential future impairments by reducing investment yields assumed in the calculation of actuarial liabilities (note 4(c)).

The carrying value of impaired assets was as follows:

As at December 31	1998 Gross amount	1998 Allowance	1998 Carrying value	1997 Gross amount	1997 Allowance	1997 Carrying value
Mortgages	**$ 241**	**$ 88**	**$ 153**	$ 277	$ 90	$ 187
Other impaired assets	**138**	**89**	**49**	102	11	91
Total	**$ 379**	**$ 177**	**$ 202**	$ 379	$ 101	$ 278

The changes during the year in respect of the specific allowance for impairment were as follows:

Specific allowance for impairment

	1998	1997
Balance, January 1	**$ 101**	$ 123
Provisions during the year	**61**	(25)
Write-offs, net of recoveries	**15**	3
Balance, December 31	**$ 177**	$ 101

In addition to specific allowances for existing impairments, actuarial liabilities include an allowance for future impairments. As at December 31, 1998, the provision for future credit losses included in actuarial liabilities was $1,102 (1997 - $1,113).

Concentrations of credit risk

The Company's exposure to credit risk is managed through risk management policies and procedures with emphasis on the quality of the investment portfolio together with maintenance of issuer, industry and geographic diversification standards.

At December 31, 1998, 93% of bonds (1997 - 93%) were rated at investment grade "BBB" or higher, 83% (1997 - 83%) were rated "A" or higher. Government bonds represented 39% (1997 - 36%) of the bond portfolio. The Company's highest exposure to a single non-government issuer was $707 (1997 - $437). Mortgages and real estate are diversified geographically and by property type. Ontario was the largest concentration of mortgages and real estate, with $3,557 (1997 - $3,878) of the total portfolio. Income producing commercial office properties were the largest concentration of real estate with $2,031 (1997 - $1,936) of the real estate portfolio.

The Company's exposure to loss on derivatives is limited to the extent that default by counterparties to these contracts results in the loss of any gains that may have accrued. All contracts are held with counterparties rated "A" or above, with 98.3% as at December 31, 1998 (1997 - 99.6%) of the exposed amount being with counterparties rated "AA" or higher. The largest single counterparty exposure at December 31, 1998 was $44 (1997 - $26).

4. Actuarial liabilities

a) Composition

Actuarial liabilities represent the amount which, together with estimated future premiums and net investment income, will be sufficient to pay estimated future benefits, policyholder dividends, taxes (other than income taxes) and expenses on policies inforce. The composition of actuarial liabilities by line of business and geographic territory was as follows:

As at December 31	Individual life insurance		Annuities		
1998	Participating	Non-Participating	and pensions	Other	Total
Canada	**$ 2,077**	**$ 1,130**	**$ 11,612**	**$ 1,060**	**$ 15,879**
United States	**9,652**	**2,945**	**6,696**	**884**	**20,177**
International	**1,881**	**33**	**747**	**21**	**2,682**
Total	**$ 13,610**	**$ 4,108**	**$ 19,055**	**$ 1,965**	**$ 38,738**
1997					
Canada	$ 1,928	$ 959	$ 12,398	$ 1,084	$ 16,369
United States	8,209	2,791	6,722	735	18,457
International	1,754	42	587	18	2,401
Total	$ 11,891	$ 3,792	$ 19,707	$ 1,837	$ 37,227

b) Assets backing liabilities and surplus

The Company has established a target invested asset portfolio mix which takes into account the risk attributes of the liabilities supported by the assets, expectations of market performance, and a generally conservative investment philosophy. Assets are segmented and matched to liabilities with similar underlying characteristics by product line and major currency. Liabilities with rate and term guarantees, such as annuities and pensions, are predominantly backed by fixed rate instruments such as bonds and commercial and mortgage loans. Traditional insurance products, such as participating whole life insurance, are backed by a broader range of asset classes. The Company's surplus is primarily invested in North American equities, bonds, real estate and international securities.

Changes in the fair value of assets backing policy liabilities would have a limited impact on the Company's surplus as it would be offset by a corresponding change in the fair value of the liabilities. The fair value of assets backing actuarial liabilities at December 31, 1998 was estimated at $42,100 (1997 - $39,700).

A change in the fair value of assets supporting surplus, other liabilities and capital results in a corresponding change in surplus when recognized. The fair value of assets backing surplus, other liabilities and capital at December 31, 1998 was estimated at $15,600 (1997 - $14,300).

The carrying value of total assets supporting actuarial liabilities, other liabilities and capital and surplus was as follows:

As at December 31	Individual life insurance		Annuities		Capital	
1998	Participating	Non-Participating	and pensions	Other	and surplus	Total
Assets						
Bonds	**$ 6,133**	**$ 2,749**	**$ 12,964**	**$ 6,007**	**$ 2,838**	**$ 30,691**
Mortgages	**916**	**386**	**4,537**	**1,461**	**402**	**7,702**
Stocks	**1,574**	**113**	**55**	**668**	**1,632**	**4,042**
Real estate	**990**	**50**	**38**	**274**	**1,640**	**2,992**
Other	**3,997**	**810**	**1,461**	**504**	**903**	**7,675**
Total	**$ 13,610**	**$ 4,108**	**$ 19,055**	**$ 8,914**	**$ 7,415**	**$ 53,102**
1997						
Assets						
Bonds	$ 5,081	$ 2,526	$ 12,766	$ 6,363	$ 1,926	$ 28,662
Mortgages	721	218	5,328	1,336	206	7,809
Stocks	1,571	125	48	–	1,785	3,529
Real estate	927	48	42	356	1,433	2,806
Other	3,591	875	1,523	701	1,027	7,717
Total	$ 11,891	$ 3,792	$ 19,707	$ 8,756	$ 6,377	$ 50,523

The net deferred realized gains taken into account in the computation of actuarial liabilities as at December 31, 1998 were $2,206 (1997 - $1,837).

c) Significant reserve assumptions

The preparation of financial statements involves the use of estimates and assumptions; however, actual results may differ from those estimates. The most significant estimation processes for insurance companies are related to the determination of actuarial liabilities.

Actuarial liabilities have two major components, a best estimate and a provision for adverse deviation. In conjunction with prudent business practices to manage both business and investment risks, the selection and monitoring of appropriate assumptions is designed to minimize the extent to which the Company is financially exposed to measurement uncertainty.

Best estimate reserve assumptions

In the computation of actuarial liabilities, best estimate reserve assumptions are made. Assumptions are made for the lifetime of the policies and include assumptions with respect to mortality and morbidity, investment returns, rates of policy termination, operating expenses and certain taxes. Actuarial assumptions may be subject to change in the future. Actual experience is monitored regularly against the assumptions to ensure that the assumptions remain appropriate. Assumptions are discussed in more detail in the table below.

Nature of factor and assumption methodology		Risk management and sensitivity to change
Mortality and morbidity	Mortality relates to the occurrence of death. Mortality assumptions are based on past and emerging Company and industry experience. Assumptions are differentiated by sex, underwriting class and policy type. Morbidity relates to the occurrence of accidents and sickness. Morbidity assumptions are based on the Company and industry experience.	The Company establishes appropriate underwriting standards to determine the insurability of applicants. Claim trends are monitored on an ongoing basis. Exposure to large claims is managed by establishing policy retention limits which vary by market and geographic location. Policies in excess of the limits are reinsured with other companies. The maximum exposure on any one life policy as at December 31, 1998 was $23 (1997 - $21). In addition, the Company carries coverage that insures against a catastrophic event that could entail aggregate claims in excess of $30 but less than $150 as at December 31, 1998, and December 31, 1997. Mortality is monitored monthly and recent experience has been favourable when compared to the Company's assumptions. Morbidity is monitored monthly and recent experience has been unfavourable, reflective of industry experience in the U.S. accident and health sector. In response, the Company has strengthened its U.S. accident and health reserves.
Investment return	The Company matches assets and liabilities by business segment, using investment objectives that are appropriate for each line of business. The projected cash flows from these assets are combined with future reinvestment rates derived from the current economic outlook and the Company's investment policy, to determine expected rates of return on these assets for all future years. Investment return assumptions include expected future asset defaults. Asset defaults are projected based on both past Company and industry experience and specific reviews of the current investment portfolio.	The Company's policy of closely matching cash flows on the assets with those for the corresponding liabilities reduces the Company's exposure to future changes in interest rates. Derivative instruments are used where necessary when there is a lack of suitable permanent investments to minimize loss exposure to interest rate changes. The valuation interest rate assumes a declining reinvestment rate in order to incorporate reinvestment risk. For the Company's annuity business, an immediate and parallel decrease in interest rates of 1% across all maturities in Canada and the United States would increase net income and surplus by $5 as at December 31, 1998 (1997 - $9). The exposure to asset default is managed by policies and procedures which limit concentrations by issuer, connections, rating, sector and geographic region. Recent mortgage default experience has continued to be favourable when compared to the Company's assumptions. Recent bond default experience has been consistent with the Company's assumptions.
Policy terminations	Lapse relates to the termination of policies due to non-payment of premiums. Surrenders relate to the voluntary termination of policies by the policyholder. Policy termination assumptions are based on the Company's own experience adjusted for expected future conditions. Assumptions reflect differences in geographic markets and lapse patterns for different types of contracts.	The Company designs its products in order to minimize financial exposure to lapse and surrender risk. In addition, the Company monitors lapse and surrender experience monthly. Generally, recent lapse experience has been favourable when compared to assumptions used in the computation of actuarial liabilities. Recent surrender experience on certain deferred annuity business has been unfavourable.

In addition to the above, assumptions are made for expenses and taxes (other than income taxes). Policy maintenance expenses are derived from the Company's own internal cost studies, projected into the future with an allowance for inflation. Explicit assumptions are made for future premium taxes and other non-income related taxes.

Provision for adverse deviation

The basic assumptions made in establishing actuarial liabilities are best estimates for a range of possible outcomes. To recognize the uncertainty in establishing these best estimate reserve assumptions, to allow for possible deterioration in experience and to provide greater comfort that the reserves are adequate to pay future benefits, the Appointed Actuary is required to include a margin in each assumption.

The impact of these margins is to increase actuarial liabilities and decrease the income that would be recognized at inception of the policy. Minimum conditions are prescribed by the Canadian Institute of Actuaries, for determining margins related to the interest risk. For other risks which are not specifically addressed by the standard, a range is defined as 5% to 20% of the expected experience assumption. The Company uses assumptions at the conservative end of the range taking into account the risk profiles of the business.

d) Risk management

In addition to risks related to reserve assumptions, the Company is also exposed to the following risks:

Foreign currency risk

The Company's strategy of matching the currency of its assets with the currency of the liabilities these assets support results in minimal financial exposure related to foreign currency fluctuations on assets backing actuarial liabilities.

The Company also generally matches the currency of its surplus with the currency of its liabilities except for approximately $600 at December 31, 1998 (1997 - $600) which was invested in a diversified basket of international currencies. Aligning the currency mix reduces the sensitivity of the Company's capital ratios to exchange rate fluctuations.

As at December 31, 1998, assets exceeded liabilities denominated in foreign currencies by approximately $3,300 (1997 - $2,800), of which $2,900 at December 31, 1998 (1997 - $2,500) related to the United States dollar. The impact of a 100 basis point increase in the Canadian dollar relative to the United States dollar would be an $8 decrease in net income for the year ended December 31, 1998 (1997 - $7) and a $49 decrease in surplus as at December 31, 1998 (1997 - $39).

Liquidity risk

Liquidity risk is the risk that the Company will not have access to sufficient funds to meet its liabilities as they become due. Certain of the Company's policies have features that allow them to be terminated at short notice creating a potential liquidity exposure. In the normal course of business, the Company matches the maturity of invested assets to the maturity of actuarial liabilities.

The Company had available liquidity, net of policies' values that can be surrendered at short notice of $22,876 as at December 31, 1998 (1997 - $20,512).

Reinsurance risk

In the normal course of business, the Company limits the amount of loss on any one policy by reinsuring certain levels of risk with other insurers. In addition, the Company accepts reinsurance from other reinsurers. Reinsurance ceded does not discharge the Company's liability as the primary insurer. Failure of reinsurers to honour their obligations could result in losses to the Company; consequently, allowances are established for amounts deemed uncollectible. In order to minimize losses from reinsurer insolvency, the Company monitors the concentration of credit risk both geographically and with any one reinsurer. In addition, the Company selects reinsurers with high credit ratings.

As a result of ceded reinsurance, actuarial liabilities have been reduced by $1,433 at December 31, 1998 (1997 - $1,169).

The effects of reinsurance on premium income was as follows:

	For the years ended December 31	
	1998	1997
Direct premium income	**$ 5,546**	$ 5,158
Reinsurance assumed	**874**	908
Reinsurance ceded	**(724)**	(444)
Total premium income	**$ 5,696**	$ 5,622

e) Change in actuarial liabilities

Change in actuarial liabilities during the year was caused by the following business activities and changes in actuarial estimates:

	For the years ended December 31	
	1998	1997
Balance, January 1	**$ 37,227**	$ 36,248
Normal change		
New policies	**769**	834
Inforce	**(541)**	(754)
Changes in methods and assumptions	**24**	89
Currency impact	**1,259**	810
Balance, December 31	**$ 38,738**	$ 37,227

In addition to the changes in methods and assumptions in 1998, provisions for unreported claims, which is included with policy benefits in the course of settlement on the Consolidated Balance Sheets, were strengthened for accident and health reinsurance.

5. Income taxes

The effective income tax rate for the consolidated provision for income taxes varies from the income taxes computed at the Canadian statutory tax rate of 43% at December 31, 1998 (1997 - 43%) for the following reasons:

	For the years ended December 31	
Reconciliation of income tax expense	**1998**	1997
Tax on income at statutory rates	**$ 409**	$ 441
Increase (decrease) in tax due to:		
Tax-exempt investment income	**(71)**	(103)
Non-deductible expenses	**22**	24
Differences in tax rates in foreign jurisdictions	**(69)**	(82)
Minimum taxes in excess of tax at statutory rate	**9**	8
Other	**(59)**	(6)
Income taxes	**$ 241**	$ 282

Income taxes included in the Consolidated Statements of Operations consisted of the following:

	For the years ended December 31	
Income tax expenses	**1998**	1997
Current income taxes	**$ 146**	$ 138
Deferred income taxes	**95**	144
Income taxes	**$ 241**	$ 282

The following table presents the deferred tax asset in total and the principal components to which it relates:

	As at December 31	
Deferred income taxes	**1998**	1997
Difference related to:		
Actuarial liabilities	**$ 372**	$ 334
Gains on sale of certain invested assets	**326**	362
Other	**74**	145
Deferred tax asset	**$ 772**	$ 841

The actuarial liabilities include amounts to recognize the non-interest bearing nature of the deferred tax asset. As at December 31, 1998, these amounts were $359 (1997 - $192). The amount of income taxes paid in cash during the year ended December 31, 1998 was $170 (1997 - $128).

Difference related to actuarial liabilities
The Company has recorded actuarial reserves in its financial statements to provide for future policyholder benefits and expenses. These financial statement actuarial reserves currently exceed the actuarial reserves being deducted for tax purposes. However, as policies terminate, both the financial statement actuarial reserves and the tax actuarial reserves will be reduced.

As a result, the excess of financial statement reserves over tax reserves will diminish and the corresponding portion of the deferred tax asset will be reduced. This decrease in the deferred tax asset may be offset by timing differences between financial statement and tax reserves resulting from new business written.

Differences related to gains on sale of certain invested assets
The gains on the sale of certain invested assets, while deferred for financial statement purposes, must be recognized for tax purposes in the year realized. As these deferred gains are recognized for financial statement purposes, the related timing difference and the corresponding portion of the deferred tax asset will be reduced.

6. Subordinated debt

	As at December 31	
	1998	1997
7 7/8% U.S. Dollar	$ **385**	$ 358
8 1/4% U.K. Pound	**242**	223
Total	$ **627**	$ 581
Fair value	$ **690**	$ 619

The fair value of subordinated debt is determined by reference to current market prices for similar debt. Both issues form part of the Company's regulatory capital. To reduce exposure to foreign currency fluctuations, derivatives are used to convert the U.K. pound debt into Canadian and U.S. dollar liabilities. The cash amount of interest paid during the year ended December 31, 1998 was $48 (1997 - $45).

a) 7 7/8% U.S. Dollar subordinated notes
During 1995, the Company issued U.S. $250 ($341) in 7 7/8% subordinated notes due April 15, 2005. This debt was issued as a private placement under Rule 144A of the Securities Act (United States).

b) 8 1/4% U.K. Pound subordinated notes
On January 1, 1996, on amalgamation with North American Life Assurance Company, the Company assumed £100 ($202) in 8 1/4% subordinated notes redeemable on November 17, 2003. Concurrently, £5 ($10) of debt, which was held by the Company, was extinguished.

7. Trust preferred securities issued by subsidiaries

(Canadian dollars in millions except as otherwise stated and per share information)

Capital Trust Pass-through Securities Units of $783 (U.S. $500) were issued by subsidiaries of The Manufacturers Life Insurance Company in January 1997 and maturing February 1, 2027. Using exchange rates at the date of issue, the net proceeds from issue were $672.

Each unit consists of one 8.25% Trust Preferred Security, issued by the trust subsidiary and one 0.125% preferred purchase contract, issued by Manufacturers Investment Corporation ("MIC"). The trust subsidiary's only asset is an investment in notes issued by MIC. Holders of each purchase contract may be required to purchase 20 non-cumulative perpetual preferred shares, Series A of MIC, at U.S. $50 per share. Holders may satisfy this purchase by delivering the Trust Preferred Securities to MIC in exchange for the perpetual preferred shares.

The Securities Units were issued as a private placement under Rule 144A of the Securities Act (United States).

From the Company's perspective, the issue is equivalent to a combination of 8.25% subordinated debt maturing February 1, 2027, and an option exercisable by the Company, requiring contract holders to purchase an equivalent amount of perpetual preferred stock in MIC. The securities form part of the Company's regulatory capital.

8. Divestiture

Effective October 1, 1997, the Company sold its 30.5% ownership of Altamira Management Limited, an asset management company. This transaction resulted in a gain on divestiture of $176 before related income taxes of $57. The 1997 net income of $743 is comprised of net income from operations of $624 and a net gain on divestiture of $119.

9. Pensions and other post-retirement benefits

Regular pension benefits are funded by assets held with independent trustees and in some instances by insurance contracts held in the general fund of the Company. In addition, projected benefit obligations as at December 31, 1998 of $272 (1997 - $249) in respect of supplementary benefit plans and other post-retirement benefits are included in other liabilities and are supported by the general assets of the Company.

The market value of the regular pension plan assets, together with the projected benefit were as follows:

	As at December 31	
Regular pension benefits	**1998**	1997
Assets held in actuarial liabilities	**$ 166**	$ 162
Assets held by independent trustees	**481**	565
Total value of pension plan assets	**$ 647**	$ 727
Projected benefit obligations	**$ (510)**	$ (447)

10. Commitments and contingent liabilities

a) Legal proceedings

Over the past several years, lawsuits, including class actions, have been filed against a number of life insurance companies operating in Canada and the United States related to life insurance pricing and sales practices, particularly the sale of life insurance policies on a "vanishing premium" or "premium offset" basis. Life insurance policies with premium offset features were designed in such a way that policy dividends would eventually offset premiums and make it possible for the policyholder to stop paying out-of-pocket premiums within a specified period of time. However, due to significant declines in interest rates, these policies could not generate enough dividends and paid up additional insurance or interest to cover future premiums. Lawsuits relating to sales of life insurance policies whose values were sensitive to changes in interest or dividend crediting rates or which were sold using the premium offset concept have typically included claims that such sales involved misrepresentations or omissions regarding the cash value of the policies or the premiums necessary to "vanish" future premiums. Certain of these lawsuits have resulted in substantial settlements or jury awards against other companies.

The Company was a named defendant in similar "vanishing premium" cases, including four class actions in Canada. In Canada, two class action suits were resolved by a settlement agreement that was approved by the court in Ontario on November 18, 1998 and the court in British Columbia on December 18, 1998. The estimated cost of the settlement agreement is $72 million for class relief and $19 million for benefits paid through a policy review process and for administration of the settlement.

In the United States, there have been a number of individual lawsuits and class actions filed against the Company making claims about sales practices and vanishing premiums. Ten of the class actions were consolidated in Federal District Court for the Southern District of California by the Multi-District Litigation Panel. An agreement to settle the consolidated suits was signed on July 8, 1998 and received court approval on December 21, 1998. The total cost of settling the U.S. class actions is estimated to be U.S.$500 million –U.S.$450 million of this will be in the form of general relief provided to class members through dividends and interest crediting over the life of the block of business and incorporates the policy enhancements developed and implemented beginning in 1995. The remaining U.S.$50 million of the settlement value will be first allocated to a claim review process and any amount remaining after such claims have been satisfied will be added to the general relief. All existing known U.S. class actions concerning vanishing premiums and other illustration practices have now been settled.

The estimated costs of the Canadian and U.S. class action settlements are within provisions already made by the Company in prior years. Management believes that these provisions are also adequate to address the remaining class actions and individual actions, including actions that may result from policyholders who have opted out of class settlement. However, there can be no assurance that these legal proceedings or any further litigation relating to life insurance pricing and sales practices will not have a material adverse effect on the Company's business, financial condition or results of operation.

The Company is also subject to legal actions arising in the ordinary course of business. These legal actions are not expected to have a material adverse effect on the consolidated financial position of the Company.

b) Investment commitments

In the normal course of business, various investment commitments are outstanding which are not reflected in the consolidated financial statements. There were $148 of outstanding investment commitments at December 31, 1998, of which $51 mature in 30 days, $89 mature in 31 to 365 days and $8 matures in 2000 or later. There were $211 of outstanding investment commitments at December 31, 1997, of which $74 mature in 30 days, $136 mature in 31 to 365 days and $1 matures in 1999 or later.

c) Pledged assets

In the normal course of business, the parent company and certain subsidiaries pledge their assets as security for liabilities incurred. The amounts pledged were as follows:

	As at December 31			
	1998		1997	
	Bonds	Other	Bonds	Other
In respect of:				
Securities lent	$ 664	$ –	$ 306	$ –
Letters of credit	18	–	269	–
Derivatives	–	9	–	–
Regulatory requirements	33	–	36	–
Total	**$ 715**	**$ 9**	$ 611	$ –

d) Capital requirements

The distribution of capital and surplus is restricted under the Insurance Companies Act (Canada). In addition, there are restrictions on distributions in foreign jurisdictions. The most significant restriction in relation to dividends is in respect of the insurance operations in the United States, where subsidiary companies are limited in the amount of dividends available for transfer to the parent company without permission from the Michigan Insurance Department, the regulator of the State in which subsidiary companies are domiciled in the United States. The amount transferable without permission is limited to the greater of 10% of the statutory surplus at the end of the previous year and the statutory net operating income of the previous year. In 1998, the maximum amount transferable was U.S. $136.

OSFI requires Canadian insurance companies to maintain minimum levels of capital (which principally includes surplus, non-cumulative perpetual preferred shares and subordinated debt) calculated in accordance with the Minimum Continuing Capital and Surplus Requirements. In addition to the restrictions under Canadian law, the Company must also maintain minimum levels of capital and surplus in foreign subsidiaries. Such amounts are based on the local statutory accounting basis in each jurisdiction. The most significant of these are the Risk Based Capital requirements in the Company's United States insurance subsidiaries. The Company maintains sufficient capital and surplus well in excess of the minimum required in all foreign jurisdictions in which the Company does business.

e) Uncertainty due to the Year 2000 risk

The Year 2000 risk is the result of computer programs being written using two digits, rather than four, to define the applicable year. Any of the Company's computer programs that have date-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. The effects of the Year 2000 risk may be experienced before, on, or after January 1, 2000 and, if not addressed, could result in systems failures or miscalculations causing disruptions of normal business operations. It is not possible to be certain that the Company's Year 2000 program will fully resolve all aspects of the Year 2000 risk, including those related to third parties.

11. Fair value of financial instruments

Financial instruments refer to both on-and-off balance sheet instruments and may be an asset or a liability. They are contracts that ultimately give rise to a right for one party to receive an asset and an obligation for another party to deliver an asset. Fair values are management's best estimates of the amounts at which instruments could be exchanged in a current transaction between willing parties and are generally calculated based on the characteristics of the instrument and the current economic and competitive environment. These calculations are subjective in nature, involve uncertainties and matters of significant judgement and do not include any tax impact.

Both the fair values and the basis for determining the fair value of invested assets, actuarial liabilities, borrowed funds, subordinated debt and derivative financial instruments are disclosed in notes 3, 4, 6, and 12, respectively.

The fair values of accrued investment income, outstanding premiums, miscellaneous other assets, policy benefits in the course of settlement, provision for unreported claims, policyholder amounts on deposit and other liabilities, approximate their carrying values, due to their short-term nature.

The fair value of trust and banking deposits is estimated at $266 at December 31, 1998 (1997 -$291) compared to a carrying value of $264 at December 31, 1998 (1997 - $294). The fair value of these financial instruments is determined by discounting the contractual cash flows, using market interest rates currently offered for deposits with similar terms and conditions.

12. Derivative financial instruments

Derivative financial instruments are financial contracts, the value of which is derived from underlying assets or interest or foreign exchange rates. In the ordinary course of business, the Company enters into primarily over-the-counter contracts for asset/liability management purposes. Derivatives such as foreign exchange contracts, interest rate and cross currency swaps, forward rate agreements and equity options are used to manage exposures to interest rate, foreign currency and equity fluctuations in order to ensure a consistent stream of earnings.

Interest rate and foreign exchange swaps are contractual agreements between the Company and a third party, to exchange a series of cash flows. For interest rate swaps, counterparties generally exchange fixed and floating interest rate payments based on a notional value in a single currency. For foreign exchange swaps, fixed interest payments and notional amounts are exchanged in different currencies. Notional amount represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows. The notional principal amounts are not included in the Consolidated Balance Sheets.

Replacement cost represents the cost of replacing, at current market rates, all contracts with a positive fair value. The amounts do not take into consideration legal contracts which permit offsetting of positions or any collateral which may be obtained.

Credit risk equivalent is the sum of replacement cost and the potential future credit exposure. The potential future credit exposure represents the potential for future changes in value based upon a formula prescribed by OSFI.

Risk weighted amount represents the credit risk equivalent, weighted according to the creditworthiness of the counterparty, as prescribed by OSFI.

Fair value is summarized by derivative type and represents the net unrealized gain or loss, accrued interest receivable or payable, and premiums paid or received.

The Company has the following amounts outstanding:

	Remaining term to maturity (notional amounts)				Fair value				
1998 ($ millions)	Under 1 year	1-5 years	Over 5 years	Total	Positive	Negative	Net	Credit risk equivalent	Risk weighted amount
Interest rate contracts:									
Swap contracts	$ 383	$ 1,846	$ 726	$ 2,955	$ 44	$ (15)	$ 29	$ 63	$ 19
Futures contracts	206	37	–	243	–	–	–	–	–
Options written	–	–	33	33	–	(1)	(1)	–	–
Subtotal	589	1,883	759	3,231	44	(16)	28	63	19
Foreign exchange:									
Swap contracts	22	528	460	1,010	45	(85)	(40)	106	24
Forward contracts	1,920	–	–	1,920	10	(2)	8	29	6
Equity contracts	174	159	–	333	6	(16)	(10)	23	8
Total	$ 2,705	$ 2,570	$ 1,219	$ 6,494	$ 105	$ (119)	$ (14)	$ 221	$ 57
1997									
Interest rate contracts:									
Swap contracts	$ 210	$ 1,244	$ 299	$ 1,753	$ 25	$ (17)	$ 8	$ 36	$ 12
Options purchased	70	–	–	70	–	–	–	–	–
Options written	–	–	31	31	–	(1)	(1)	–	–
Sub-total	280	1,244	330	1,854	25	(18)	7	36	12
Foreign exchange:									
Swap contracts	61	176	578	815	42	(44)	(2)	95	21
Forward contracts	397	–	–	397	1	(1)	–	5	1
Equity contracts	15	61	–	76	3	–	3	8	2
Total	$ 753	$ 1,481	$ 908	$ 3,142	$ 71	$ (63)	$ 8	$ 144	$ 36

13. Segmented information

The Company provides a wide range of financial products and services, including individual life insurance, group life and health insurance, pensions, annuities and mutual funds to individual and group customers in Canada, the United States and Asia. The Company also offers reinsurance services, primarily life and accident and health reinsurance, and provides investment management services with respect to the Company's general fund assets, segregated fund assets and mutual funds and, in Canada, to institutional customers. Revenues earned from investment management services with respect to segregated fund assets and mutual funds are included in other revenue.

The Company's business segments include the Canadian, U.S., Asia, and Reinsurance divisions. Each division has profit and loss responsibility and develops products, services and distribution strategies based on the profile of its business and the needs of its market.

The accounting policies of the segments are the same as those described in Note 1, Nature of operations and significant accounting policies.

By segment For the year ended December 31, 1998	Canadian Division	U.S. Division	Asia Division	Reinsurance Division	Other	Total
Revenue						
Premium income						
Individual life and health	$ 647	$ 1,602	$ 717	$ 416	$ –	$ 3,382
Group life and health	929	–	43	333	15	1,320
Individual annuities	334	35	–	–	–	369
Group pensions	330	170	125	–	–	625
Total premium income	$ 2,240	$ 1,807	$ 885	$ 749	$ 15	$ 5,696
Investment income	1,668	1,870	212	151	222	4,123
Other revenue	143	518	47	8	76	792
Total revenue	$ 4,051	$ 4,195	$ 1,144	$ 908	$ 313	$ 10,611
Interest expense	$ 36	$ 42	$ 34	$ 2	$ 44	$ 158
Net income before tax	$ 318	$ 524	$ 88	$ 31	$ (10)	$ 951
Income taxes	(83)	(175)	(8)	(1)	26	(241)
Net income	$ 235	$ 349	$ 80	$ 30	$ 16	$ 710
Segregated fund deposits	$ 1,730	$ 6,837	$ 279	$ –	$ –	$ 8,846
As at December 31, 1998						
Actuarial liabilities	$ 15,804	$ 19,711	$ 2,387	$ 727	$ 109	$ 38,738
Funds under management						
General fund	$ 20,203	$ 22,402	$ 3,577	$ 2,770	$ 4,150	$ 53,102
Segregated funds	6,931	30,224	1,045	–	–	38,200
Mutual funds	–	–	118	–	1,590	1,708
Other managed funds	–	–	–	–	3,680	3,680

By geographic location For the year ended December 31, 1998	Canada	United States	Asia	Other	Total
Revenue					
Premium income					
Individual life and health	$ 678	$ 1,826	$ 723	$ 155	$ 3,382
Group life and health	950	238	44	88	1,320
Individual annuities	334	35	–	–	369
Group pensions	330	170	125	–	625
Total premium income	$ 2,292	$ 2,269	$ 892	$ 243	$ 5,696
Investment income	1,692	2,018	212	201	4,123
Other revenue	142	516	47	87	792
Total revenue	$ 4,126	$ 4,803	$ 1,151	$ 531	$ 10,611

By segment For the year ended December 31, 1997	Canadian Division	U.S. Division	Asia Division	Reinsurance Division	Other	Total
Revenue						
Premium income						
Individual life and health	$ 594	$ 1,396	$ 700	$ 425	$ –	$ 3,115
Group life and health	943	67	47	372	11	1,440
Individual annuities	405	35	–	–	–	440
Group pensions	298	208	121	–	–	627
Total premium income	$ 2,240	$ 1,706	$ 868	$ 797	$ 11	$ 5,622
Investment income	1,755	1,714	231	128	182	4,010
Other revenue	114	370	37	7	46	574
Total revenue	$ 4,109	$ 3,790	$ 1,136	$ 932	$ 239	$ 10,206
Interest expense	$ 33	$ 33	$ 27	$ 2	$ 61	$ 156
Net income before tax and gain on divestiture	$ 287	$ 487	$ 102	$ 65	$ (92)	$ 849
Income taxes	(70)	$ (175)	$ (5)	$ (10)	$ 35	$ (225)
Net income before gain on divestiture	217	312	97	55	(57)	624
Gain on divestiture (net of $57 of income taxes)	–	–	–	–	119	119
Net income	$ 217	$ 312	$ 97	$ 55	$ 62	$ 743
Segregated fund deposits	$ 1,418	$ 5,376	$ 232	$ –	$ –	$ 7,026
As at December 31, 1997						
Actuarial liabilities	$ 16,280	$ 17,964	$ 2,234	$ 659	$ 90	$ 37,227
Funds under management						
General fund	$ 20,357	$ 20,434	$ 3,473	$ 2,532	$ 3,727	$ 50,523
Segregated funds	5,425	20,860	733	–	–	27,018
Mutual funds	–	–	92	–	2,033	2,125
Other managed funds	–	–	–	–	2,652	2,652

By geographic location For the year ended December 31, 1997	Canada	United States	Asia	Other	Total
Revenue					
Premium income					
Individual life and health	$ 626	$ 1,616	$ 707	$ 166	$ 3,115
Group life and health	965	337	49	89	1,440
Individual annuities	405	35	–	–	440
Group pensions	298	208	121	–	627
Total premium income	$ 2,294	$ 2,196	$ 877	$ 255	$ 5,622
Investment income	1,827	1,900	240	43	4,010
Other revenue	136	383	37	18	574
Total revenue	$ 4,257	$ 4,479	$ 1,154	$ 316	$ 10,206

14. Subsequent event

On February 9, 1999, the Company announced the signing of an agreement with Daihyaku Mutual Life Insurance Company of Japan ("Daihyaku Mutual") to establish a new life insurance company in Japan: Manulife Century Life Insurance Company. Manulife Financial will hold a controlling interest in the new company, which plans to purchase the sales staff and business origination capacity of Daihyaku Mutual, Japan's 15th largest insurer. Daihyaku Mutual would cease writing new business, and would retain its existing business assets and obligations. This arrangement is subject to receipt of appropriate Board of Directors, Daihyaku Mutual policyholders and regulatory approvals.

15. Comparatives

Certain comparative amounts have been reclassified to conform with the current year's presentation.

Supplemental Tables

Table 1 - Key Performance Measures

	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
Net operating income ($ millions)	**710**	624	503	372	281	187	85	201	187	206	143
Capital* ($ millions)	**7,415**	6,377	4,859	3,826	3,052	2,771	2,584	2,162	2,174	2,050	1,828
Operating return on surplus (%)	**12.9%**	13.6%	12.4%	11.4%	9.6%	7.0%	3.3%	9.7%	8.9%	10.6%	8.1%
Operating return on assets (%)	**1.37%**	1.28%	1.08%	0.93%	0.71%	0.51%	0.26%	0.71%	0.75%	0.90%	0.67%
Capital* as a per cent of liabilities	**16.2%**	14.4%	11.5%	10.6%	8.2%	7.8%	8.0%	7.6%	9.0%	9.4%	9.0%

* Capital includes: Surplus, Subordinated debt and Trust preferred securities issued by subsidiaries.

Table 2 - Summary Consolidated Balance Sheets

As at December 31 ($ millions)	**1998**	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
Assets											
Bonds	**30,691**	28,662	25,627	21,259	18,452	16,763	14,805	12,382	10,816	10,737	10,959
Mortgages	**7,702**	7,809	8,106	6,917	8,555	9,368	9,565	9,052	7,799	6,718	5,508
Stocks	**4,042**	3,529	2,796	2,592	2,954	2,684	2,260	2,249	1,767	1,702	1,573
Real estate	**2,992**	2,806	3,044	2,888	3,350	3,395	3,275	2,873	2,602	2,214	1,922
Policy loans	**3,137**	2,663	2,354	1,973	1,856	1,651	1,425	1,187	1,082	1,003	930
Cash and short-term investments	**1,329**	1,842	2,600	1,792	2,683	2,447	1,554	1,724	1,198	542	501
Other investments	**499**	479	292	173	209	368	557	571	332	288	348
Invested assets	**50,392**	47,790	44,819	37,594	38,059	36,676	33,441	30,038	25,596	23,204	21,741
Other assets	**2,710**	2,733	2,424	2,268	2,168	1,818	1,459	711	656	574	434
Total assets	**53,102**	50,523	47,243	39,862	40,227	38,494	34,900	30,749	26,252	23,778	22,175
Liabilities											
Actuarial liabilities	**38,738**	37,227	36,248	31,257	31,296	29,028	26,666	23,219	20,777	18,383	16,886
Other liabilities	**6,949**	6,919	6,136	4,779	5,879	6,695	5,650	5,368	3,301	3,345	3,461
Subordinated debt	**627**	581	566	341	-	-	-	-	-	-	-
Trust preferred securities issued by subsidiaries	**783**	728	-	-	-	-	-	-	-	-	-
Surplus	**6,005**	5,068	4,293	3,485	3,052	2,771	2,584	2,162	2,174	2,050	1,828
Total liabilities and surplus	**53,102**	50,523	47,243	39,862	40,227	38,494	34,900	30,749	26,252	23,778	22,175

Table 3 - Mix of Invested Assets

As at December 31 ($ millions)	**1998**	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
Bonds	**61%**	60%	57%	57%	48%	46%	44%	41%	42%	46%	51%
Mortgages	**15%**	16%	18%	18%	22%	26%	28%	30%	31%	29%	25%
Stocks	**8%**	7%	6%	7%	8%	7%	7%	7%	7%	7%	7%
Real estate	**6%**	6%	7%	8%	9%	9%	10%	10%	10%	10%	9%
Policy loans	**6%**	6%	5%	5%	5%	4%	4%	4%	4%	4%	4%
Cash and short-term investments	**3%**	4%	6%	5%	7%	7%	5%	6%	5%	3%	2%
Other investments	**1%**	1%	1%	0%	1%	1%	2%	2%	1%	1%	2%
Invested assets	**100%**	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Certain amounts have been restated to conform with the 1998 presentation.

Table 4 - Summary Consolidated Statements of Operations

For the year ended December 31 ($ millions)	**1998**	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
Revenue											
Premium income	**5,696**	5,622	5,694	5,193	4,988	4,456	4,104	4,000	3,933	3,521	3,374
Investment income	**4,123**	4,010	3,734	3,231	2,882	2,853	2,744	2,635	2,447	2,325	2,063
Other revenue	**792**	574	447	212	218	151	102	106	102	105	44
Total revenue	**10,611**	10,206	9,875	8,636	8,088	7,460	6,950	6,741	6,482	5,951	5,481
Policy benefits and expenses											
Payments to policyholders and beneficiaries	**6,385**	6,508	5,883	5,132	4,678	3,764	3,239	2,722	2,665	2,488	1,937
Increase in actuarial liabilities	**252**	169	873	1,089	1,214	1,788	2,004	2,378	2,272	1,938	2,210
Policyholder dividends	**604**	508	471	356	312	267	247	212	192	181	176
General expenses and commissions	**2,125**	1,879	1,699	1,222	1,205	1,060	993	910	893	885	808
Interest expense	**158**	156	161	203	243	281	297	223	183	185	143
Premium taxes	**74**	83	72	64	57	50	52	38	37	20	16
Trust preferred securities issued by subsidiaries	**62**	54	-	-	-	-	-	-	-	-	-
Total benefits and expenses	**9,660**	9,357	9,159	8,066	7,709	7,210	6,832	6,483	6,242	5,697	5,290
Income before preferred share dividends, unusual items and income taxes	**951**	849	716	570	379	250	118	258	240	254	191
Preferred share dividends	-	-	-	-	-	-	(16)	(16)	(16)	(16)	(16)
Unusual items	-	176	-	126	-	-	-	-	(63)	16	(26)
Income taxes	**(241)**	(282)	(213)	(215)	(98)	(63)	(17)	(41)	(37)	(32)	(32)
Net Income	**710**	743	503	481	281	187	85	201	124	222	117

Table 5 - Summary Consolidated Statements of Surplus

($ millions)	**1998**	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
Balance, January 1	**5,068**	4,293	3,485	3,052	2,771	2,584	2,162	2,174	2,050	1,828	1,711
Net income for the year	**710**	743	503	481	281	187	85	201	124	222	117
Adjustment to surplus	-	(48)	321	-	-	-	337	(213)	-	-	-
Change in Currency Translation Account	**227**	80	(16)	(48)	-	-	-	-	-	-	-
Balance, December 31	**6,005**	5,068	4,293	3,485	3,052	2,771	2,584	2,162	2,174	2,050	1,828

Certain amounts have been restated to conform with the 1998 presentation.

Supplemental Tables

Table 6 - Premiums and deposits by line of business and geographic territory

For the year ended December 31 ($ millions)	**1998**	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
General fund premiums by line of business											
Individual life and health insurance	**2,966**	2,690	2,631	2,354	2,252	2,156	1,948	1,741	1,579	1,402	1,205
Group life and health insurance	**987**	1,068	1,112	735	584	385	347	309	290	257	289
Individual annuities	**369**	440	622	935	1,031	844	774	939	718	771	768
Group pensions	**625**	627	676	600	567	573	634	680	1,024	801	886
Reinsurance	**749**	797	653	569	554	498	401	331	322	290	226
Total	**5,696**	5,622	5,694	5,193	4,988	4,456	4,104	4,000	3,933	3,521	3,374

For the year ended December 31 ($ millions)	**1998**	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
General fund premiums by geographic territory											
Canada	**2,292**	2,294	2,530	2,142	1,963	1,548	1,459	1,418	1,084	1,094	988
United States	**2,269**	2,196	2,162	2,152	2,241	2,373	2,161	2,190	2,163	1,835	1,909
International	**1,120**	1,121	983	806	685	438	367	280	211	167	146
Reinsurance (1)	**-**	-	-	-	-	-	-	-	322	290	226
Divested operations	**15**	11	19	93	99	97	117	112	153	135	105
Total	**5,696**	5,622	5,694	5,193	4,988	4,456	4,104	4,000	3,933	3,521	3,374

(1) Not split geographically prior to 1991.

For the year ended December 31 ($ millions)	**1998**	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
Segregated fund deposits by geographic territory											
Canada	**1,730**	1,418	757	323	671	488	204	118	111	102	118
United States	**6,837**	5,376	3,365	931	670	385	214	126	114	84	91
International	**279**	232	169	113	78	57	37	32	30	23	13
Divested operations	**-**	-	-	37	171	162	161	168	249	152	166
Total	**8,846**	7,026	4,291	1,404	1,590	1,092	616	444	504	361	388

Table 7 - Funds under Management

As at December 31 ($ millions)	**1998**	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
Funds under management by category											
General funds	**53,102**	50,523	47,243	39,862	40,227	38,494	34,900	30,749	26,252	23,778	22,175
Segregated funds	**38,200**	27,018	18,553	5,532	5,445	4,012	2,734	2,270	1,905	1,901	1,714
Mutual funds	**1,708**	2,125	2,782	934	746	563	441	477	-	-	-
Securitized funds	**-**	-	-	-	4,622	4,477	3,696	2,435	-	-	-
Other managed funds	**3,680**	2,652	2,944	330	279	-	-	-	-	-	-
Total	**96,690**	82,318	71,522	46,658	51,319	47,546	41,771	35,931	28,157	25,679	23,889

Certain amounts have been restated to conform with the 1998 presentation.